

**PROBLEM OF SICKNESS IN SMALL SCALE INDUSTRY :  
A COMPARATIVE SOCIOLOGICAL STUDY OF  
EIGHT SMALL INDUSTRIAL UNITS IN BANGALORE**

A Thesis Submitted  
in Partial Fulfilment of the Requirements  
for the Degree of  
**DOCTOR OF PHILOSOPHY**

88405

By  
**HIRE MATH PANCHAKSHARIAH**

to the  
**DEPARTMENT OF HUMANITIES & SOCIAL SCIENCES**  
**INDIAN INSTITUTE OF TECHNOLOGY, KANPUR**  
AUGUST, 1981

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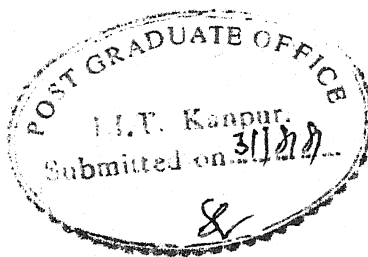
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## **DEDICATION**

This work is dedicated to :  
"APPAJI" my beloved late father.



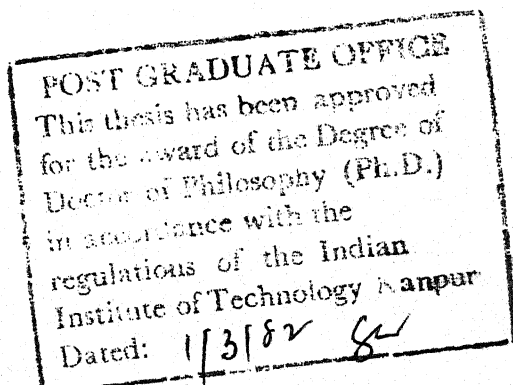
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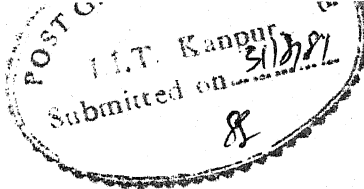
## CERTIFICATE

This is to certify that the thesis Problem of Industrial Sickness in Small Scale Industry: A Comparative Sociological Study of Eight Small Industrial Units in Bangalore, submitted by Mr. Hire Math Panchaksharaiah, in partial fulfilment for the degree of Doctor of Philosophy to the Indian Institute of Technology, Kanpur, is a record of bonafide research work carried out by him under my supervision and guidance. The results embodied in this thesis have not been submitted to any other University or Institute for the award of any degree or diploma.

(P. N. Rastogi)  
Professor of Sociology  
Department of Humanities and Social Sciences  
Indian Institute of Technology,  
Kanpur 208016 (UP), India

August, 1981





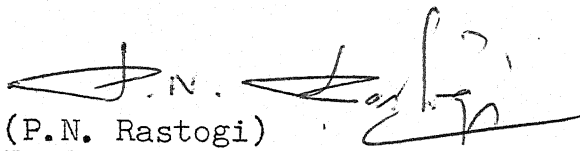
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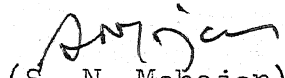
### CERTIFICATE

This is to certify that Mr. Hire Math Panchaksharaiah has completed all the course requirements in the Ph.D. Programme in Sociology.

H-Soc 720 Research Methodology  
H-Soc 730 Industrial Sociology  
H-Soc 732 Sociology of Development  
H-Soc 721 Advanced Sociological Theory  
H-Soc 725 Social Change in Developing Countries  
H-Soc 723 Introduction to Statistical Inference

Mr. Hire Math Panchaksharaiah was admitted to the candidacy of the Ph.D. degree in November, 1977 after he successfully completed the written and oral qualifying examinations.

  
(P.N. Rastogi)  
Head of the Department  
Humanities and Social Sciences  
Indian Institute of Technology  
Kanpur

  
(S. N. Mahajan)  
Convener  
Dept. Post-Graduate Committee  
Humanities and Social Sciences  
Indian Institute of Technology  
Kanpur

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(3) In the case of Regal Engineering Industry, the major causal factors underlying its role failure are both voluntary and involuntary. The project start-up was affected due to the inordinate delay in getting an important lathe. However, the unit still earned some profit. But the unit failed to consolidate its position after the initial success. The other causal factors that affected the role performance of the unit, were labour problems, and working capital shortage. These factors led the unit to a sick status.

(4) The major causal factors underlying the role failure of Paxwell Tools and Engineering Entreprises were both voluntary and involuntary. The project start-up was affected as the unit could not receive one of the important lathes from its suppliers. Other causal factors that affected the unit's performance are poor marketing and labour problems. These factors led the unit to a state of sickness. After analyzing the comparative role performance of sick units we now turn to the analysis of the role performance of the healthy units.

## 5.2 A Comparison of the Healthy Units from Electronics and Machine Tools Industries.

The healthy units being compared are:

1. Sai Electronics (Pvt.) Ltd.
2. Electronic Equipments (Pvt.) Ltd.
3. Sabeer Machine Tools (Pvt.) Ltd.
4. M/S Precision Tools.

## SYNOPSIS

PROBLEM OF SICKNESS IN SMALL SCALE INDUSTRY :  
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Small scale industry has been accorded an important place in the national economy by the national decision makers. Small units generate employment at relatively small capital cost; mobilise resources of capital and skill at microlevels and are expected to meet the rising demand for various goods and services required by the economy. Small scale industry forms an important sector constituting nearly 40 percent of the total output in the private sector. Much more significant is the employment generation capacity of small scale industry.

India operates today in sheer size what is perhaps the largest small industries programme in any developing country. Small scale sector as a priority sector of the national economy is protected and promoted in a number of ways.

The growth of small industry has been sought to be promoted over years through various government policies and measures. However, presently the small scale industrial sector suffers from a high rate of mortality and growing incidence of sickness. According to latest estimates, the percentage of sick units in the small scale industry varies from ten to fifty percent in various states. The closure or debilitated existence of an industrial unit involves heavy cost to the society: it renders idle its manpower; lays waste scarce financial and material resources invested in land and buildings, machinery and equipment, inventories and stocks. The social cost involved is much more.

Present study attempts to understand and analyse the problem of sickness in small scale industries from a sociological perspective. The problem of sickness in industrial units is essentially a sociological problem. An industrial enterprise is a social system functioning in a social environment consisting of various other social systems with whom it interacts in terms of specific role relationships. Accordingly, the problem of sickness may be viewed in terms of the role-performance failure of the units concerned and the social entities in their environment. Analogously, the problem may be interpreted in terms of the mal-functioning role relationships based on the reciprocity of expectations amongst the interacting social systems.

All the four units are characterized by varying degrees of successful role performance based on the portrayal of their role performance in the last two chapters, the dimensions of successful role performance of the healthy units may be stated as below. These dimensions are essentially the same as in the case of sick units. Only their signs are reversed here:

- (i) The start up of the project as per schedule,
- (ii) Cohesion of ownership structure,
- (iii) Carrying out of production activity at an economic level i.e., the non-failure of production function,
- (iv) Payment of sufficient wages and bonus to their workers and maintain harmonious relations i.e., effective management of labour relations,
- (v) Sustained and increasing volume of sales i.e., effective marketing function,
- (vi) Paying back the loan instalments to the financial institutions as per schedule i.e., maintenance of financial credibility,
- (vii) Maintenance of working relations with other social entities in their environment,
- (viii) Fulfilment of the social objectives of surplus and employment generation.

The healthy units have shown capacity to create net internal surplus and generate sustained potential for employment.



So far, however no attempt appears to have been made toward analysing the problem of industrial sickness from a sociological point of view and in a systematic and comparative context.

Research design of the present study is organised around a systematic comparison of a matched set of eight small scale units equally divided into healthy and sick categories. The units selected for the study are characterized by a set of common control characteristics. Methodological rationale behind selection of units sharing a set of common characteristics is to ensure a set of crucially important control conditions in the context of identifying the factors underlying sickness or its absence in the investigated units. The scope and validity of the findings are further sought to be enlarged by selecting the units from two different lines of production i.e., electronics and machine tools, instead of focussing on a single category of production only.

The selected units in each of the two production lines are similar to one another in respect of the following important control characteristics:

1. Age of the unit i.e., the period of its establishment
2. Manufacturing activity
3. Production technology
4. Production capacity-

Table 5.5: Major causal factors underlying the differential role performance of healthy and the sick units.

Units	Status of the unit	Financial strain due to project delays	Dissemination among partners	Assured marketing outlet	Help from official agencies to meet difficulties	Overcoming the initial difficulties
Surya Electronics Laboratory	Sick, may closedown	--	+	-	--	-
Techno Electronics Instruments	Sick, may closedown	+	--	+	-	-
Regal Engineering Industry	Sick, may closedown	-	+	-	--	-
Paxwell Tools and Engg. Enterprise	Sick, may closedown	-	+	--	-	-
Sai Electronics (Pvt.) Ltd.	Healthy, but stagnating	+	+	+	NS	+
Electronic Equipments (Pvt.) Ltd.	Healthy and growing	+	+	+	NS	+
Sabeer Machine Tools (Pvt.) Ltd.	Healthy and growing	+	+	+	NS	+
M/S Precision Tools	Healthy and growing	+	+	+	NS	+

NS = Not Sought,

-- = Very adverse situation,

+- = Initially positive but later became adverse

+ = A positive situation

5. Capital structure
6. Technical background of the entrepreneurs
7. Socio-economic background of the labour force
8. Size of the labour force
9. Sources of finance
10. Geographic location of the unit

In addition to the foregoing common control characteristics of the small scale units selected for study, the entrepreneurs associated with these units are also characterized by the following common entrepreneurial attributes:

1. Education
2. Technical qualifications
3. Awareness of ideas and opportunities in their respective fields
4. High level of motivation
5. Possession of investible capital
6. Technical work experience in their respective lines of production
7. Familiarity with the governmental provisions for the promotion of small scale industry

These entrepreneurial attributes are deemed as the prerequisites of successful entrepreneurial performance in the literature on entrepreneurial development. In our study, however, we find that the performance differentials of the

- (i) Timely sanctioning of loans, licences etc.
- (ii) Supply of the required quantity and quality of raw materials
- (iii) Timely response toward the units' need for financial accommodation and additional funds etc
- (iv) Timely and helpful response for the various types of help sought and necessary
- (v) Effective coordination between the different service and financial organizations dealing with the units
- (vi) A genuine concern and sympathy for the units' problems by visits by the officials from the concerned organizations to the units concerned

Discrepancy in the reciprocity of role expectations between the small scale units and the service and financial organizations defines a situation of role malfunctioning and failure.

In the following pages we discuss the role failures of the service and financial organizations with reference to the units of our study.

#### 6.2.1 Role Failure of Karnataka State Financial Corporation Ltd. (KSFC):

KSFC was established on March 30, 1951, primarily to meet the financial requirements of the small and medium enterprises, the former being considered to be relatively more

'sick' and 'healthy' units cannot be assessed in terms of these attributes only as they are the common features of all the entrepreneurs in our study.

The logical structure of the investigation is accordingly organised around the following four themes of inferences: (1) the comparison of 'sick' units among themselves, (2) the comparison of 'healthy' units among themselves, (3) the comparison of 'healthy' and 'sick' units and (4) the organization and environment relationships of the units concerned. These themes of inference are based on Mill's Method of Agreement and Method of Difference.

The objectives of the study may now be stated as follows:

1. To find out the underlying factors differentiating the 'sick' and 'healthy' status of the units investigated in the study.
2. To understand the problem of sickness by analysing the actual and normative role performance of the various social entities in the units' social environment.
3. To bring out the salient issues underlying the role failure of the various social entities involved in the problem situation including the units concerned.
4. To assess the findings of various studies on industrial sickness in small scale industry in relation to the findings of the present work.

assistance proposed by KEONICS were not realistic according to the entrepreneur. The managing director of KEONICS informed the investigator that the corporation has some set procedures in offering marketing assistance to the electronics units. In accordance with these procedures the terms of marketing assistance were made known to the entrepreneur of Surya Electronics Laboratory. The managing director pointed out that the entrepreneur never turned up to negotiate the deal, after submitting two models of the voltage stabilizers proposed to be produced by the firm.

The entrepreneur on the other hand threw the blame entirely on the managing director for his alleged lack of sympathy to understand the problems of the small scale unit. He accused the managing director of passing on the models of the voltage stabilizers submitted by him to managing director's friend for production of the same.

The role of KEONICS as a service organization has been criticized by other sick units also. The healthy units also have not received any kind of assistance from KEONICS. Their evaluation of the role of KEONICS is not high. The role failure of this organization is then assessed in terms of the percep-

5. To derive a set of policy measures for dealing with the problems of sickness in small scale industry, on the basis of the present study.

The study is primarily based on the data collected from field work. Data was collected through field observation and interview schedule over a period of six months. Secondary sources of information have been utilised where necessary.

Framework of sociological analysis employed in this study is oriented around the basic concepts of role performance, norms of role performance, role failure and the organization-environment relationship.

Small scale units as social entities depend on other social entities for their various requirements like finance, material inputs, manpower, technical information and marketing. The units in turn contribute to the society, goods and services, taxes, employment opportunities and the upgradation of technical skills. An industrial unit is defined as 'sick' when it fails to generate internal surplus on a continuing basis and depends for its survival on frequent infusion of external funds. This definition is based on economic criteria. From a sociological point of view however, a unit is 'sick' when it fails to meet its social obligations to society as a creator of employment potential and net economic surplus needed for the

Bank of India and Nationalized Banks and at a lower and more direct level the agencies like KSFC, KEONICS, SISI and the various branches of nationalized banks. The present study as well as all the available information shows that the policies enunciated and implemented by the various governmental organs for the promotion and growth of small scale industry have been largely unsuccessful. The number of sick units is increasing, the percentage of defaulting units is rising and the financial base of the state agencies themselves is being eroded as a consequence. It is thence of imperative importance to develop a set of policy measures for improving such a state of affairs.

#### 7.1 Policy Measures from Role Failure Analysis:

In the preceding chapters, we have discussed and analysed the events, factors, circumstances and situations contributing to the role failures of the social entities involved in the problem. We have also depicted the subjective perceptions of the role incumbents as regards their respective views of the problem phenomenon. The identification of the required policy measures for dealing with the problem would thence logically be based on the requirements of eliminating or rather overcoming the actual and perceived sources of their role performance failures. In what follows, we identify a set of policy measures based on the requirements of rectifying the sources of their role failures. We outline these policy measures briefly and indicate their rationale alongside.



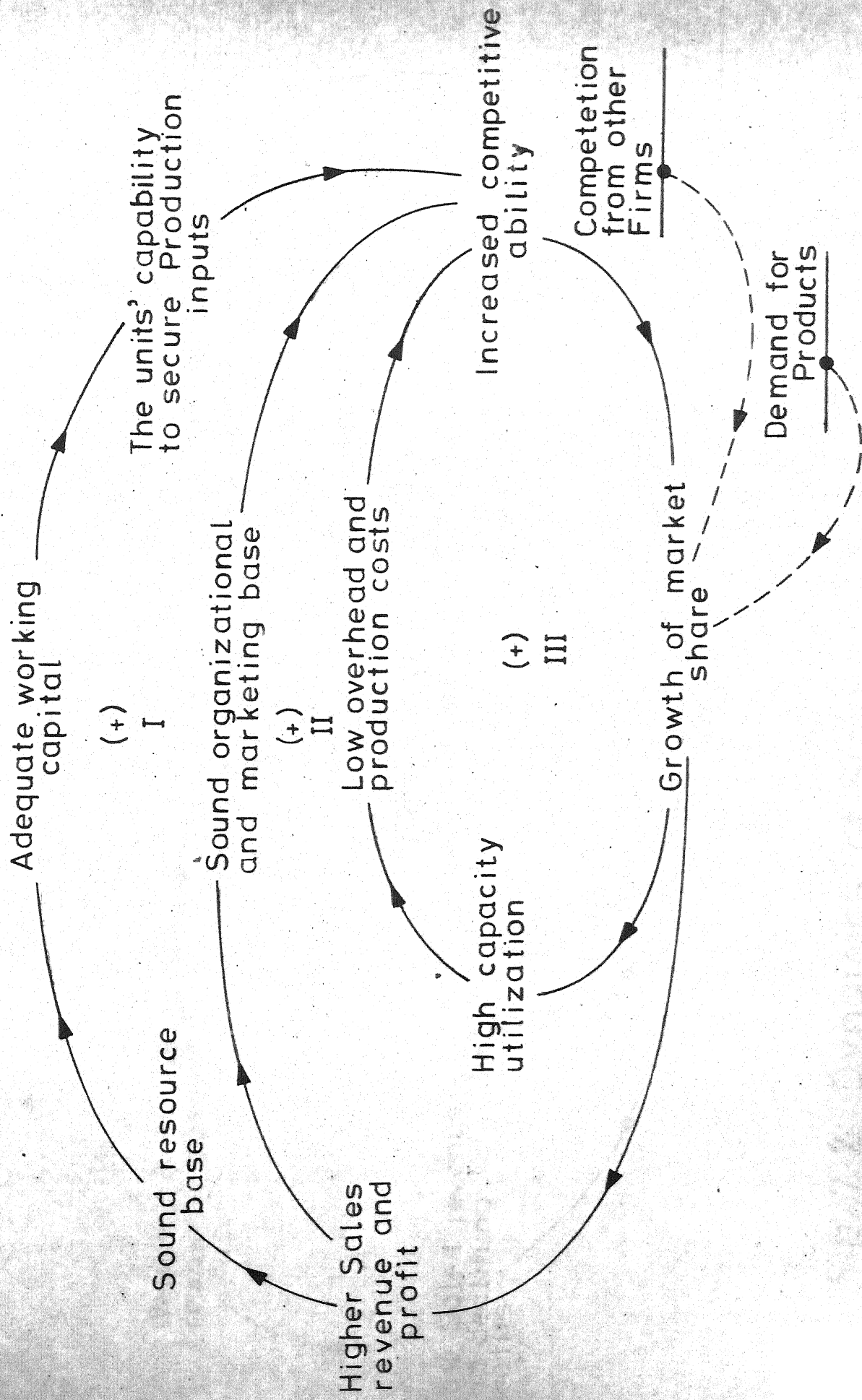


Fig. 7.1 Dynamics of Healthy Small Scale Units

development of national economy. The sick status of a unit is further an outcome of its role performance failure along with those of the social entities in its environment.

The main thrust of the analysis is around the comparison of the performance of 'healthy' and 'sick' units in respect of their basic functional subsystems like finance, production, material inputs, manpower and marketing. The comparison reveals that their performance in their respective functional subsystems differs markedly. In the case of 'sick' units we find that they faced difficulty in securing adequate working capital. They were however, able to start production and earned marginal profits in the first two years. From the third year onward their performance began to deteriorate due to internal and external factors. Among the internal factors the most important was the inability of the entrepreneurs to stabilise and consolidate their relationship with the market. It led them to a situation where they failed from third year onward to secure adequate orders and volume of business to cover their operational costs. Disturbed labour relations brought about by their poor financial position further aggravated their low capacity utilisation and led them toward a situation of continuing losses.

The external factors include the non-availability of assistance regarding marketing, shortages of basic raw-

materials and working capital needs from the state agencies apart from the damaging delays in the units dealing with the state agencies.

The 'healthy' units on the other hand were not crippled by the lack of working capital and they succeeded in stabilising their market position after the first two years of their operation. With a relatively more adequate financial resource base, they could secure enough volume of business so as to earn modest profits. However, they too have not been able to utilize their production capacity fully due to the constraints they share in common with the 'sick' units. They are far from the realization of their full production potential and the utilization of growth opportunities.

The study shows that the social entities in the environment of small units have failed in their normative role performance. Both 'healthy' and 'sick' units have encountered the apathy and unresponsiveness of the small scale service organizations. The service rendered by these organizations has been characterized by inordinate delays, inadequacy and lack of understanding. The entrepreneurs perceive the role performance of the state institutions as unhelpful and indifferent.

The work of the state agencies and financial organs is seen to lack coordination and follow-up measures that are indispensable for sustaining the operation of new units. The

exogenous variables and reversing the signs of the variables in this situation. The measures may thence contextually be identified as follows:

(i) The official agencies should extend the necessary financial assistance toward the working capital requirements of the sick units, who may benefit from such help and improve their performance.

(ii) The official agencies should extend the marketing assistance to the weak units so that they may increase their market share.

(iii) The official agencies should avoid inordinate delays in their transactions with the units i.e. they should improve their internal working methods and procedures.

(iv) Official agencies should coordinate their operations in a timely and effective manner with a view to help the sick units in a meaningful manner.

(v) In order to assist the units and assess their genuine requirements properly, the officials of the government agencies should be trained in techniques of managerial analysis.

(vi) In order to overcome their resource constraints in helping the sick units, the central and state governments and R.B.I. should provide them with more financial resources as well as greater flexibility in these operations.

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Majumdar, H.K., and A. Nag, Survey of Mortality of Small Scale Industries in South India, Indian Institute of Economics; Hyderabad, 1977.

Mayer, K.B., and S. Goldstein, The First Two Years: Problem of Small Firm's Growth and Survival, Small Business Administration; Washington, 1961.

role failure of these agencies has contributed to the sickness of weak units on the one hand and prevented the proper growth of the healthier units on the other. The state agencies attribute their ineffective role performance to the policy and resource constraints imposed on them by the higher level state organs. They also realize that the depletion of their resources by the sick units and policy implementation lapses on their own part have contributed to their ineffective role performance.

Policy inferences emerging out of this study are basically of two types:

1. Policies to promote fuller growth of small units by providing required measure of help to the growing units.
2. Policies to identify and revive the weak and sick units in order to make them viable.

These policies emerge from the study in a deductive manner. The theoretical constructs of the sociology of knowledge and social cybernetics are utilized for this purpose. The study is concluded at this point.

An important point emerging from the present study is to show that the problem of sick units cannot be understood merely in terms of the surface characteristics of the

entrepreneurs. All the entrepreneurs of the study are characterized by a set of common attributes mentioned earlier i.e., education, technical qualifications, work experience etc.

The problem of industrial sickness in this study is seen to be the outcome of the varying degrees of role failure of the entrepreneurs and the social entities in their environment. Effective role performance of the social entities in the environment could have potentially prevented the role performance of the enterprises from worsening. The poor performance and role failure of the 'sick' units who cannot repay the borrowed funds in turn depletes the resource base of the state agencies and adversely affects their capacity to help the needy units more effectively and adequately. The sociological nature of the problem hence emerges as one of a cascading set of role failures amongst an interrelated and interacting set of social entities involved in the problem situation.

## CHAPTER I

### INTRODUCTION: THE PROBLEM OF INDUSTRIAL SICKNESS IN SMALL SCALE INDUSTRY

#### 1.1 Growth of Small Scale Industry in India:

Industrial development of the underdeveloped countries is one of the major endeavours of our times. It is an effort through which the underdeveloped countries hope to find a solution to their pervasive problems of poverty and unemployment. This belief was expressed by Nehru when he said, "Real progress must ultimately depend on industrialization."<sup>1</sup> Throughout the world, industrialization has indeed become a major instrument of socio-economic transformation.

Industrial activity in India until the middle of the 19th century consisted mainly of handicrafts, such as the handloom production of cotton, silk and woollen textiles. The decline of handicrafts during late 19th Century was primarily due to the disappearance of the native Indian courts, the establishment of British rule and competition from a more highly developed form of industry.<sup>2</sup>

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1. Jawaharlal Nehru Speeches (New Delhi: Government of India Publications, 1958), p. 11.
  2. D.R. Gadgil, The Industrial Evolution of India in Recent Times, (London: Oxford University Press, 1954), p. 31.



In the late 19th Century India saw the emergence of multisectoral economy with the appearance of factory industry both foreign and national, and the formation of capitalist enterprises. The development of small industries in India however shows distinct differences from that of large industries. The former gradually began to take shape in the first decade of the 20th Century with the introduction of machinery under the stimulus of foreign competition whereas the latter entered the Indian scene in an already developed form.

Small industry emerged through various stages of industrial organization. Initially its roots were in the urban crafts (e.g., handlooms, brasswares) which very often depended for credit on the dealers of raw materials and the bulk buyers of finished products. Bringing together a number of such urban workshops under one roof, some of these middlemen became the first small capitalists in India.<sup>1</sup>

At a later stage there was an upsurge of small industries of another kind which produced their products by using mechanical appliances. New kind of entrepreneurs with different training and outlook as compared to the earlier middle-man-trader-entrepreneur emerged on the industrial scene at this stage.

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1. D.R. Gadgil, Op.cit., p. 9.

Long before the independence came to India, Indian intellectuals and economists were wrestling with the problem of reconciling the advantages of large scale industries with the need for decentralization and diffusion of industrial production through small scale industries. However, an interesting fact here is that though India recognised the significance of small scale industry from the beginning of the independence period (even earlier a la Gandhian approach), it did not attempt to collect systematic information in this regard till as late as 1974.

#### 1.2 Industrial Policy Resolution: A Growing Emphasis on Small Scale Sector:

The need for the development of small scale, village and cottage industries was realized by the Indian government from the very beginning. Although their importance was underlined in the Industrial Policy Resolution of 1948 and 1956, a positive policy in this regard was announced only in the Industrial Policy Resolution of 1978. This was the first time that the government laid a greater stress on the small sector than on any other industrial sector of the economy. Before independence, small scale industries occupied a relatively insignificant place in the national economy. They consisted mostly of unorganised units including household units engaged

in the production of goods with the aid of simple handtools. Shirokov views them as organised on pre-capitalist form.<sup>1</sup>

Since independence, and particularly during the five-year plans, there arose a situation favourable to the development of all types of small scale industries. They received government protection and incentives. The rapid expansion of domestic market also helped the small scale industries in expanding their production and diversification of their products.

The development of the modern small scale sector received an impetus from the recommendations of the First International Perspective Planning Team which visited India in 1953-54 and made valuable suggestions.<sup>2</sup> The Team's major recommendations were the setting up of (a) four Regional Institutes of Technology (Small Scale Service Institutes) and (b) a marketing service corporation (National Small Industries Corporation). The government accepted these recommendations in formulating its programmes and policies for promoting small scale industries. A central organization viz., organization of the small scale industries under a Development Commissioner came into existence in the year 1954. In the Second Five Year Plan (1956-61) further steps were taken to strengthen the States' Departments of

1. G.K. Shirokov, Industrialisation of India, (Moscow: Progress Publishers, 1973), p. 269.

2. See Report on Small Industries in India - Ford Foundation Report, (New Delhi: Govt. of India Publication, 1955).

Industries. This trend, by and large, continued in the Third and the Fourth Five Year Plans also.

In the Fifth Plan emphasis was placed on certain basic things like promoting entrepreneurial development, providing technical consultancy services and incentives for new industrial units in semi-urban, rural and backward regions. During the Sixth plan under Janata Government, the outlay earmarked for the small scale sector was Rs. 1,410 crores. This sector was expected to generate three million jobs out of a total of 49.26 million jobs sought to be created during the plan period.<sup>1</sup> All the foregoing policies and promotional activities indicate the continuity of the government's objective of promoting the development of the small sector.

### 1.3 Role of Small Scale Industry in the National Socio-Economic System:

Small industries have important social and economic significance for the Indian socio-economic system. The government's oft-stated objectives have been the equitable distribution of wealth, balanced regional growth, and generation of employment opportunities for the weaker sections of society. Development of small scale industries has been accorded high priority in the successive five-year plans as an important

1. A.K. Balakrishnan and Nikilesh Dholakhia, Decentralised Sector: A Managerial Framework, Vikalpa, Vol. No.4, Oct., 1979 (Ahmedabad; IIM), p. 281.

instrument for realising these and related objectives of socio-economic development.

The relevant policy considerations in this context may be outlined as follows: (a) Small scale industries generate large volume of employment at relatively lower capital cost. According to one estimate Rs. 1 lakh investment in small scale sector provides employment for 26 persons, whereas the same investment in the large scale industry generates employment for just 4 persons.<sup>1</sup> Another sample survey points out Rs. 1 lakh investment in small scale industry results in employment for 13 persons.<sup>2</sup>

(b) Small scale industries serve to meet a substantial part of the increased internal demand for consumer goods.

(c) They facilitate a mobilization of local resources of both man-power and capital which might otherwise remain unutilised.

(d) Their requirements of capital and managerial expertise are relatively much lower.

(e) Agro-based small industries can act as vital link in harnessing the vast agricultural and forest resources and

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1. S.M. Patil, "Growth of Ancillary Industry in India," The Economic Times, (Bombay: 1.11.1978), p. 8.

2. Report of Committee on Public Undertakings, Twelfth Report, (Bangalore: Karnataka Legislature, 1979), p. 8.

thence serve to lessen the pressure on overcrowded urban areas. They may also help in developing new growth centres in the rural areas.

(f) Ancillary units provide parts and sub-assemblies to large forms at a considerably lower unit cost than that at which the latter would produce the items themselves.

(g) Small industries serve to promote entrepreneurial development and managerial culture both of which are considered to be the determinants of industrial development.

(h) They may help save foreign exchange and also earn the same by developing import substitution and exports.

(i) They may reduce disparities of regional development and help promote economic growth.

Owing to the foregoing policy considerations in regard to small industries, the government has been trying to promote their development. Table 1.1 depicts the development of this economic sector from 1965-66 to 1977-78.

#### 1.4 Sickness in Small Scale Industry:

Small scale sector has grown quantitatively as well as qualitatively. Three decades of industrialization have made India perhaps the largest industrialized country in Asia next only to Japan. The contribution of this vital sector to the Indian economy is substantial. Its share in the total private

sector production rose from 35 percent in the year 1972<sup>1</sup> to more than 40 percent in 1979, and it constituted 18 percent of the total exports.<sup>2</sup>

Performance of the small sector (Table 1.1) has, however, not been quite satisfactory due to a lack of dedicated efforts by both the entrepreneurs and the concerned promotional organizations. Apart from the unhealthy practice of diversion of funds from the small industries .... and the diminishing share of the small scale sector in the state plan allocations, as observed by Administrative Reforms Commission, the attitude of the officials was noted as another relevant factor in this connection.<sup>3</sup> Many entrepreneurs floated bogus small units to avail the scarce raw material quota for profiteering and thus creating shortages of raw-materials for the needy units. Less than 14,000 of the 37,000 registered small units in U.P. were found actually working.<sup>4</sup> Evidently, a number of small units served as pipelines for the diversion of raw materials thereby reducing the effectiveness of the small industries programmes.

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1. Editorial "Small Sector Growth," The Economic Times, (New Delhi: June 21, 1976).
  2. R.K. Vepa, "25 Years of SIDO: A Balance Sheet," Laghu Udyog, Vol. IV, Sept. 1979, New Delhi, p. 3.
  3. Report of the Working Group on Small Scale Sector (New Delhi: Administrative Reforms Commission, 1968), pp. 96-97.
  4. The Times of India, Nov. 27, 1974.

Table 1.1: Progress of Small Scale Industries:  
Select Indicators.

Sl.No.	Indicators	1965-66	1975-76	1976-77	1977-78
1.	Number of units registered with States Directorates of Industries (Nos.)	1,20,000	5,00,000	5,20,000	6,00,000
2.	Fixed Investment (Rs. in crores)	548	1,500	1,820	2,140
3.	Employment (in lakhs)	29	55	56	60
4.	Value of production (Rs. in crores)	2,954	5,700	6,700	7,570
5.	Export (Rs. in crores)	155	500	637	828

Source: Vasanth Desai, Organization and Management of Small Scale Industries, (Himalaya, Bombay, 1979).



The growth of small industry in the country is presently affected by a high rate of mortality and growing incidence of sickness. The problem of sickness has become widespread and is a matter of serious concern, though the phenomenon of sickness and economic death of industrial units is not new or specific to Indian economy. Of the 5.5 lakh registered small units as many as 80,000 are sick and the figure could be much more if a detailed census were taken.<sup>1</sup> According to 1973-74 census of small industries over one third of the 232,794 enumerated units were either non-traceable or closed.<sup>2</sup> This approximately amounts to 33 percent of the total registered units. Extent of sickness in different states varies from ten percent to forty-eight percent according to the recent information items in the national news papers.<sup>3</sup>

In Uttar Pradesh, according to a survey conducted by State Directorate of Industries, there were 13,300 sick units out of a total of 41,000 small scale units.<sup>4</sup> About 5000 units in Tamil Nadu are on the sick list.<sup>5</sup> In Bihar, over 20,000 out of nearly 36,000 small scale units were sick affecting

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1. S.M. Patil, Op.cit.
  2. All India Report on the Small Scale Industries, Vol. I (New Delhi: Development Commissioner, Small Scale Industries, 1976), p. 14.
  3. The Economic Times, dated 11.2.1981.
  4. Vasanth Desai, Organization and Management of Small Industries (Bombay: Himalaya Publishers, 1979), p. 536.
  5. Ibid.

nearly 50,000 entrepreneurs and more than 5 lakh workers.<sup>1</sup> One third of the small scale units assisted by State Bank of India in Visakhapatnam are sick.<sup>2</sup> Almost all the units in Assam industrial estates are running below their full capacity.<sup>3</sup> In Madhya Pradesh, 80 percent of small and medium industries in the State have stopped working.<sup>4</sup> Out of the 2,511 industrial units assisted by the Karnataka State Financial Corporation upto March 1979 as many as 780 units had become sick.<sup>5</sup> According to another estimate nearly 12,000 of 20,000 industrial units in Karnataka are sick or semi-sick.<sup>6</sup> However, another estimate puts the percentage of sick units in Karnataka at 40 percent.<sup>7</sup> Thus a firm estimate of the total number of sick units all over India is yet to be made. According to the State Bank of India which lent over Rs. 105 crores in 1977 to about 45,000 small scale units in Tamil Nadu, Pondicherry, Karnataka and Kerala, 10 to 20 percent of them were sick.<sup>8</sup>

The foregoing figures and estimates clearly establish the fact that the incidence of sickness in small industry is not only high but also widespread.

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1. Ibid.
  2. The Economic Times, dated, 6.2.1978.
  3. The Economic Times, dated, 29.1.1978.
  4. The Economic Times, dated, 25.11.1977.
  5. The Economic Times, dated, 27.9.1979.
  6. Press release of Karnataka Small Industries Revival Association, Bangalore, dated, 14.4.1979.
  7. Deccan Herald, Bangalore, dated 9.9.1978.
  8. Vasanth Desai, Op.cit.

In the case of the closures of sick units in large and medium industry, the government can take over their management or amalgamate them with some healthy units. But in the case of small units, it is rather difficult to either take them over or change their management. Hence the sickness in small scale sector should be tackled at the grass-roots level. This can be done only when the dynamics of sickness in small industry are clearly understood.

#### 1.5 Socio-economic Repercussions of Industrial Sickness:

An industrial unit is not a mere factory producing certain goods. It is also a social endeavour involving the lives and social aspirations of many persons. Lives of many individuals and their dependents are affected by the success and effective operation of an industrial unit. The closure of a unit not only brings economic loss to the nation, but also creates a socio-psychological crisis for the individuals and their families who are associated with the unit.

The closure or debilitated existence of an industrial unit involves heavy cost to the society. It renders idle manpower. It lays waste scarce financial and material resources invested in land and building, machinery and equipment, inventories and stocks. It engenders loss of taxes to the public exchequer. The social cost involved is much more.

R.N. Sharma, in his study, has forcefully brought out the miseries and privations of the laid-off workers of two closed textile mills in Kanpur. The State of extreme poverty faced by the idle workers reached its culmination point when some of the respondents were found involved in beggary, starvation, prostitution, and suicides.<sup>1</sup> Desai points out that 50,000 to 60,000 small units (12 percent of the total small scale units) employing over 4 lakhs workers that have closed down could have produced goods worth Rs. 9000 crores per year.<sup>2</sup>

Many case studies have been published depicting the mental agony and depression caused by the closure of industrial units, especially in the small sector, where the technocrats who started them were repenting for having left their lucrative and secure jobs.<sup>3</sup>

The unemployment and poverty in India are so high that the contraction of employment through industrial sickness has become a grave socio-economic problem. Once a worker is thrown out, the chances for his re-employment are very bleak, "Out of 250 laid-off workers ... only 3 respondents (i.e., 12 percent of the sample) could get a job of permanent nature."<sup>4</sup>

1. R.N. Sharma Factory Unemployment in India, Unpublished Doctoral Thesis submitted to IIT Kanpur 1978 (See specially Chapter V).
2. Desai, Op.cit.
3. See Chapters III and IV of this thesis.
4. R.N. Sharma, Op.cit.

A sick unit not only blocks certain amount of capital and machinery etc. but also involves endless litigations with the financial institutions, which in turn affect the efficiency and capacity of the financial institutions to offer help and loans to other needy units. The committee on public undertakings of the Karnataka Legislature noted that the overdues to the Karnataka State Financial Corporation from the sick units amounted to Rs. 12.80 crores. This was nearly 29 percent of the total outstanding loans. The committee expressed the fear that debt service charges which are already substantial may mount further thereby threatening the viability of the corporation itself.<sup>1</sup>

#### 1.6 A Brief Review of Literature:

Though the occurrence of industrial sickness has become widespread in India, a corresponding research interest in the problem seems to be lacking. Most of the available studies are either the sponsored ones or reports of the committees constituted by government or financial institutions. Studies of Ginzber (1939), Singh (1971) and Mukherjee (1973) go into the causes of business failure in U.K. and USA.<sup>2</sup> A start has

1. Report of the Public Undertakings, Op.cit.
  2. Ginzber, Eli, The Illusion of Economic Stability, (New York: Harper and Brothers, 1939), p. 25.
- Ajit Singh, Takeover Their Relevance to the Stock Market and the Theory of the Firms, (Cambridge Univ.Press, 1971), p.25.
- Santosh Mukherjee, Through No Fault of Their Own, (London: APEP Report Macdonald, 1973), p.34.

been made in India also. S.K. Agarwal's study of sickness in sugar industry has yielded some understanding of the role of government policies and government enterprise relationships in the causation of sickness.<sup>1</sup> R.N. Sharma's study described the socio-economic repercussions of the closure of two textile mills in Kanpur.<sup>2</sup>

First ever national census of small scale industries (1973-74) showed that nearly 33 percent of the total registered units were either non-traceable or were closed. However, the census did not go into the reasons for the closures of these units.<sup>3</sup> For the first time the maladies of the small scale sector were exposed by this census. Varshneya et.al. study<sup>4</sup> attempted to define sickness on the basis of capacity to generate internal surplus. Their study brought out some causes of sickness. The major emphasis of their study was on preparing guidelines for the appraisal of projects and the revival of sick units assisted by banks. V.G.Patel's study in Gujarat<sup>5</sup> attempted to correlate the age and experience of entrepreneurs with the success and failure of a firm. This study found that

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1. S.K. Agarwal, Policy Analysis for Government and Industry Relationship: The Problem of Sick Units in Sugar Industry, (Unpublished Ph.D. Thesis submitted to IIT Kanpur), 1978.
  2. R.N. Sharma, Op.cit.
  3. All India Report on the Small Scale Industries, Vol. I and Vol. II, (New Delhi: Development Commissioner - Small Scale Industries, 1976), p.14, Table 3.1.
  4. J.S. Varshneya, et.al. Financing of Small Scale Industries, (Bombay: State Bank of India, Bombay, 1975), p. 38.
  5. V.G. Patel, Entrepreneurial and Economic Profile of a Small Scale Unit, (Ahmedabad: Gujarat Ind.Dev.Corp'n.Ltd., 1975).

higher the age and more the experience, the greater the probability of achieving entrepreneurial success. Majumdar and Nag (1977)<sup>1</sup> conducted a survey to ascertain the factors behind the mortality of units in small scale sector in South India. Major finding of this survey indicated an inter-relationship between the size and mortality of the unit. About the major causes of mortality, the study comes to the conclusion that the most important of them is the lack of adequate finance. This, however, can also be viewed as the result rather than a cause of failure. Other causes of failure were, poor preparation of project, defective management, marketing constraints and raw-material difficulties. Another survey pointed out similar problems faced by sick units in Vidarbha.<sup>2</sup> Industrial Credit Investment Corporation's experience<sup>3</sup> shows that 10 percent of its projects, most of them promoted by the new entrepreneurs, were adversely affected. Some committees appointed by government and financial institutions have also gone into the problem of sickness in industry. Important among them are the reports of Tondon Group (1977), Sen Committee (1976), Ray Committee (1976), IRCI - AIEI Study, Inter-Ministerial Group (1978) and James Raj Committee (1978)<sup>4</sup>. All these reports are basically

1. H.K. Majumdar and A. Nag, Survey of Mortality of Small Scale Industries in South India, (Hyderabad: Indian Institute of Economics, 1977).
2. Survey Report, Sick Units in Vidarbha in Small Scale Sector, (Nagpur: Vidarbha Industries Association, 1976).
3. I.C.I.C. Experience, Problem Projects and Their Rehabilitation, (Bombay: Industrial Credit Investment Corporation of India, 1977).
4. Sudarshan Lal, How to Prevent Industrial Sickness, (New Delhi: Navrang Publishers, 1979), pp. 204-219.

aimed at the rehabilitation of sick units. They lack a grass-root understanding of the problem.

Studies conducted in USA by Woodroof and Alexander (1958), Mayer and Goldstein (1961) and the University of Iowa Study (1962)<sup>1</sup> have enriched the understanding of functioning and short-comings of small units. These studies compared the successful and the unsuccessful firms and arrived at inferences accounting for their respective performances. Such type of studies should also be undertaken in the Indian context in order to understand why certain units fail while others achieve success.

#### 1.7 A Brief Note on the Present Study:

In the foregoing review of literature it was found that the problem of industrial sickness was studied mainly by the economists, financial experts, and management consultants. Grass-root, micro-level delineation, and analysis of the relevant situations thus have been notably lacking. Present study undertakes a sociological examination of the problem in empirical depth. So far as the writer is aware no indepth examination of the problem from a sociological perspective appears to have been made so far.

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1. Woodroof, A.M. and Alexander Success and Failure in Small Manufacturing: A Study of 20 Small Manufacturing Concerns (Pittsburgh: Univ. of Pittsburgh, 1958), Mayer, K.B. and S. Goldstein, The First Two Years: Problem of Small Firms Growth and Survival (Washington: Small Business Administration, 1961), Univ. of Iowa Study, An Analysis of Environmental and Management Factors in the Success and Failure of Small Manufacturing Enterprise (Iowa: Univ. of Iowa, 1963).



The present study systematically compares a set of healthy and sick small scale units sharing certain common control characteristics. It attempts to examine as to why certain units have been successful while others have failed inspite of their almost equivalent organizational resources and potentialities and their operation in the same socio-geographic business environment.

The details of the research design and methodology of investigation of this study are outlined in the next chapter.

## CHAPTER II

### THE OBJECTIVES OF PRESENT INQUIRY AND METHODOLOGY OF INVESTIGATION

While reviewing the studies on industrial sickness in the small scale sector, it was noticed that a set of external and internal factors engender sickness in small units. The review also showed that in depth empirical studies of sick units are lacking. None of the available studies have so far attempted to explain fully or substantially the reasons for the differential performance of a comparable set of small scale units. There is hence a clear need to understand properly the nature and dynamics of transactions between the small scale units and their environments and view the problem of sickness from a deeper sociological perspective as distinct from a purely economic approach.

#### 2.1 Objectives of Present Study.

The present study endeavours to take note of the foregoing aspects. It addresses the following issues that also constitute the study's objectives of inquiry. The latter may be briefly stated as follows:

- (i) To find out the underlying factors differentially the sick and healthy status of the small units investigated by the study.
- (ii) To understand the problem of sickness by analysing the actual and normative role performance of the various social entities in the environment of the enterprises.
- (iii) To bring out the salient issues underlying the role failure of the various social entities involved in the problem situation including the units concerned.
- (iv) To assess the findings of various studies on industrial sickness in small scale industry in relation to the findings of the present work.
- (v) To derive a set of policy measures for dealing with the problem of sickness in the small scale industry on the basis of the present study.

In order to realize these objectives, the research design of the study is formulated as follows:

## 2.2 The Research Design:

The research design of the present inquiry is a combination of the comparative method in sociology, control group technique of the social science researches and the J.S. Mill's logical Method of Agreement and Method of Difference.

The study is organized around a systematic comparison of a matched set of small scale units equally divided into healthy and sick categories. The units selected for the study are characterized by a set of important common control characteristics.

The methodological rationale behind the selection of the units sharing common characteristics is to ensure crucially important control conditions in the context of identifying the factors underlying the sickness or its absence in the units investigated. The scope and validity of the findings are further sought to be enlarged by selecting the units from two different lines of production instead of focussing on one type of production technology only.

Small manufacturing units in Bangalore producing electronic goods and machine tools constitute the sample of the study.

The selected units in each of the two production lines are similar to one another in respect of the following important control characteristics:

- (i) Age of the unit i.e., the same period of establishment.
- (ii) Manufacturing activity.
- (iii) Production technology.\*

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\* Here production technology refers to production infrastructure consisting of machinery, equipment and technical know-how with which the units turn out different products.

- (iv) Production capacity.
- (v) Capital base i.e., similar orders of investment in the units.
- (vi) Socio-economic background of the workers.
- (vii) Size of the labour force.
- (viii) Sources of capital finance.
- (ix) Geographic location of the units.

In other words the selected units were established approximately during the same period (1972-73), their manufacturing and production technology in their respective production lines i.e., electronics and machine tools are the same, production capacities of the electronics and machine tools units in their respective classes are also the same, the volume of capital investment in the units is of the same order, the sources of finance are the same, the number of workers employed by the units is of the same orders and finally the socio-economic background of the workers employed in the units and the units geographic location are also the same. The units are located in Bangalore and the workers are drawn from the districts of Karnataka.

Socio-economic profiles of the units in respect of these characteristics are outlined in the next chapter.

In addition to the foregoing common control characteristics of the small scale units selected for study, the

entrepreneurs associated with these units are also characterized by the following common entrepreneurial attributes:

- (i) Education
- (ii) Technical Qualification
- (iii) Awareness of ideas and opportunities in their respective fields
- (iv) High level of motivation
- (v) Possession of investible capital
- (vi) Technical work experience in their respective lines of production and
- (vii) Familiarity with the governmental provisions for the promotion of small scale industry.

These entrepreneurial attributes are deemed as the prerequisites of successful entrepreneurial performance in the literature on entrepreneurial development. In our study, however, we find that the performance differentials of the sick and healthy units cannot be assessed in terms of these attributes only as they are the common features of all the entrepreneurs in our study.

The research design of the study hence consists of selecting a set of enterprises and entrepreneurs sharing a set of common control characteristics. It then permits the derivation of inferences in terms of the Mill's Method of Agreement i.e. a set of common situational features and the Method of Difference i.e., a corresponding set of differing situational features.

### 2.3 The Sample:

In terms of the research design of the study, the sample is purposive. It consists of eight small manufacturing units. All the eight units are operating in the Bangalore Metropolitan Area (Karnataka State) and have been financed by Karnataka State Financial Corporation. The selection of the sample posed a serious problem due to the requirements of a set of units and entrepreneurs with matching control characteristics.

The industry-wise lists of the units were obtained from Karnataka State Financial Corporation and their organizational performance and financial position of the units were examined. Finally two units which were doing relatively well and two units which were sick were selected from the machine tool industry. Similarly, a set of four units was drawn from the electronics industry. Thereafter, the entrepreneurs of the units so selected were contacted and their cooperation sought. To protect the image of the units in the market, their real names have been disguised.

### 2.4 Mill's Method of Agreement and Difference:

As mentioned earlier the sample of the study involved a purposive selection of a matched set of eight units from electronics and machine tools industry from Bangalore, equally divided into healthy and sick categories. All the units

selected for study are characterized by a set of important common control characteristics. By comparing the performance of the matched set of healthy and sick units, we identify the important factors underlying the differential performance of the unit in terms of the logic of Mill's Method of Difference and Agreement.<sup>1</sup> Mill's Method of Difference states, "If an instance in which the phenomenon under investigation occurs, and an instance in which it does not occur, have every circumstance in common save one, that one occurring in the former, the circumstance in which alone the two instances differ, is the effect or the cause, or an indispensable part of the cause of the phenomenon". Mill's Method of Agreement states, "If two or more instances of the phenomenon under investigation have only one circumstance in common, the circumstance in which alone all the instances agree is the cause or effect of the given phenomenon". The selection of the units and the entrepreneurs sharing a common set of basic characteristics is then intended to provide the basis for the derivation of inferences in terms of the Mill's two methods.

## 2.5 The Logical Structure of Investigation:

The logical structure of the investigation in terms of the foregoing research design is organized around the following

1. J.S. Mill, A System of Logic, (London: Longmans, 1965), pp. 253-256 (Originally published in 1841).



four themes of inference.

- (i) A comparison of the sick unit among themselves
- (ii) A comparison of the healthy units among themselves
- (iii) A comparison of the healthy units with the sick units
- (iv) A comparative analysis of the enterprise-environment relationships of all the units.

These themes of inference aim at yielding insights concerning the internal and external factors affecting the performance of the units. The logical structure of the investigation is synoptically shown in Fig. 2.1.

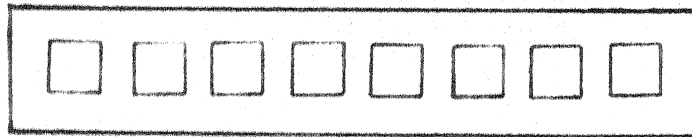
## 2.6 Identification of Information Needs and Methods of Data Collection:

### 2.6.1 Information Needs:

In accordance with the foregoing logical structure of investigation, following information requirements were identified for the present study:

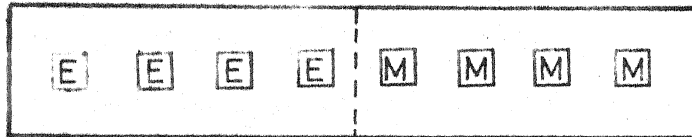
- (i) Information from the small scale units regarding the details of their performance since their inception
- (ii) The nature and types of the interactive transactions of the units with the social entities in their environment
- (iii) Information about the role expectations and perceptions of the entrepreneurs regarding their role relationships with the social entities in their environment.

## Eight Industrial Units

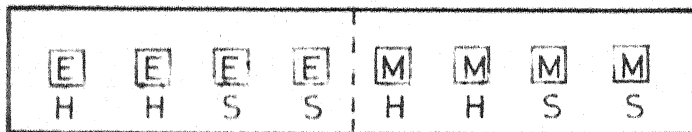


Common control characteristics of the entrepreneurs and enterprises

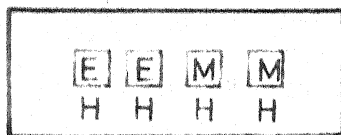
## Electronics      Machine Tools



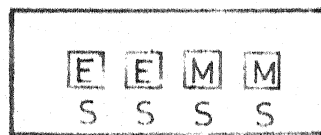
Two Product-lines



Matched samples of healthy & sick units



I

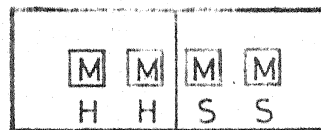
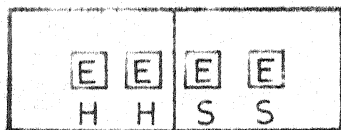


II

Mill's Method of agreement in respect of healthy & sick units

Common features of healthy units

Common features of sick units



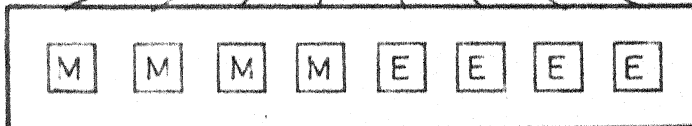
Mill's Method of difference in respect of healthy and sick units

III

Assessment of the differing features of the healthy and sick units in the matched samples

## ENVIRONMENT

Common and differentiating features of Environment-Enterprise Relationships



Comparative Assessment of Environment-Enterprise Relationships of the eight units

Fig.2.1 The logical structure of the

(iv) Information from the social entities i.e., service and financial organizations present in the environment of small units regarding their role expectations and perceptions of their role relationships with the small units assisted by them.

#### 2.6.2 Data Collection :

The requisite data was collected in two phases. In the first phase, the data regarding the units was collected with the help of an interview schedule administered at the factory location. Information was provided in all cases by the entrepreneurs themselves. An open ended interview was also conducted to collect the relevant information about the organization-environment relationships. Secondary sources of data like financial statements, project reports, correspondence between the unit and the financial institutions were also consulted.

Second phase of the data collection was undertaken after we identified the specific interacting role relationships of the units with the financial and service organizations. Information about the relationships and transactions between the units and environing the social systems was obtained by interviewing the senior executives of the organizations concerned. Secondary sources like official documents, organizational charters, brochures, hand-outs and book-lets concerning

the activities of these organizations were also utilized especially in the context of identifying the nature and norms of their role performance.

## 2.7 The Sociological Framework of Analysis:

It was pointed out earlier that so far no attempts appear to have been made towards analysing the problem of industrial sickness from a sociological perspective. Hence no precedent or guidance in this regard is available from the existing studies concerning a conceptual frame work or methodology. The conceptual frame work adopted by us is based on the basal sociological concept of role. The sociological frame work of the study is thence organized around the cognate concepts of role-performance, role-expectations, norms of role-performance, role-failure and the role-interaction of organizations with their environments.

The concept of role is extensively used in sociological and psychological researches.<sup>1</sup> It refers to the attitude and behaviour of individuals occupying specific social positions or a group of persons belonging to a particular social stratum or a collectivity. In the present study, the concept of role refers to corporate entities, i.e., social collectivities and systems.<sup>2</sup>

1. For detailed discussion, see B.J. Biddle, and Edwin, J. Thomas, Role Theory: Concepts and Research, (New York: John Wiley, 1966).
2. B.J. Biddle, and Edwin J. Thomas, op.cit.

Small scale units are social systems that depend on other social systems for their various requirements like finance, material inputs, manpower, machinery and equipment, technical information, and marketing. The units in turn contribute to the society goods and services of value, taxes, employment potential and an up-gradation of technical skills.<sup>1</sup> Social organizations are established to achieve specific objectives of social relevance through their work and performance. Role performance of organizations in this context refers to their working and behaviour for achieving their respective objectives.

A small scale unit is a social system functioning in a social environment consisting of various other social systems with whom it interacts in terms of specific role relationships. These role relationships are meant to be governed by their respective norms of role-performance. The problem of sickness in this context hence may be viewed in terms of the role performance failures of the industrial units concerned and their enviroining social entities. Analogously, the problem may also be interpreted in terms of the malfunctioning inter-role relationships. The role relationships are based on the "reciprocity of expectations" amongst the interacting role incumbents. The role incumbents here are the enterprises, the

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1. P.N. Rastogi, "Business and Society: Transaction Flows and Symbiosis," An invited paper contributed to the Seminar on Social Responsibility of Business, (Kanpur: Upper Indian Chamber of Commerce, 1973), p. 2.

financial institutions, the customers and the service institutes. The strain perceived and felt in their role relationships as manifested in their discrepant reciprocity of role expectations, thus represents the concomitant sociological aspects of the sickness problem. In our study we have attempted to take into consideration both the economic and the sociological indicators of organizational performance in analysing and evaluating the industrial units performance in terms of the sociological framework of Role Theory. Some of the concepts used in our analysis may be briefly outlined as follows.

(i) Role: The concept of role refers to the totality of the expected functions of a social actor, person or collectivity vis-a-vis other social actors with whom it interacts. In the context of our study these expected role functions are identified through the collectivity i.e., the organization's specific objectives and aims, organizational activities described in the organizational charters, acts, project reports, and the official write-ups. These documents provide the source of the role definitions of the social actors i.e. organizations and institutions in our study.

(ii) Norms of Role Performance: Social actors are not only expected to carry out their role functions but are also expected to perform them in a prescribed manner. The role behaviour must conform to the recognized social norms and modes of

appropriateness. These socially recognized expectations of role behaviour constitute the norms of role performance of the social actors.

(iii) Role Failure: Role failure of a social actor refers to the failure of a social actor to realize partially or fully, the social expectations associated with its role position and functions.

(iv) Healthy Unit: A healthy unit here refers to an industrial unit which is capable of fulfilling its social obligations and realizing its organizational goals effectively and efficiently including the creation of internal economic surplus.

(v) Sick Unit: A sick unit correlatively refers to an industrial unit which has failed in fulfilling its social obligations and the realization of its organizational goals effectively and efficiently. It is a net consumer of economic resources and has been running in loss continuously over a sustained period of time. A State Bank of India definition defines a sick unit as one that has been running in loss for three years consecutively.

The foregoing sociological frame work of analysis is sought to be extended further by utilizing the theoretical constructs of the sociology of knowledge and social cybernetics. This extension of the analysis is warranted by the requirements

of identifying the policy measures for the solution of the problem. In what follows these approaches to analysis are briefly outlined. They are discussed in greater detail in Chapter VII.

## 2.8 The Sociology of Knowledge:

According to the sociology of knowledge,<sup>1</sup> each of the social actors involved in a problem situation, views the problem in terms of his own segmental interests, whose non-fulfilment corresponds to the seriousness of the problem perceived by him.

In the present context the social actors involved in the problem are the entrepreneurs, the service organizations, and the financial institutions. According to this approach these actors view the problem differently from one another in terms of their respective interests based on their social positions. Accordingly the solution to the problem in principle can be found by arriving at a 'perspectivalsynthesis' (Manheim's, 1939) of the different views of the social actors involved in the problem situations.

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1. Karl Manheim's, Ideology and Utopia, (Harcourt and Brace: 1939) is regarded as a pioneering work in the sociology of knowledge. For a good exposition, see R.K. Merton, Social Theory and Social Structure, (Free Press: 1959), See also P.N. Rastogi, "Sociology of Knowledge as a Technique of Conflict Resolution," Proceedings of VIII World Sociological Congress, (Toronto, 1973).



## 2.9 Social Cybernetic Analysis:

In the present study social cybernetic analysis<sup>1</sup> is used for a holistic study of the problems of the small scale units. This complex problem situation is here dynamically analyzed for the healthy and the sick units in the form of multi-loop structures of interacting negative and positive feedback cycles. These cycles represent the dynamic inter-relationships of the variables.

Malfunctioning of the loops in relation to their intended regulatory role provide the basis for a solution of the problem. The solution of the problem consists of the measures required for the rectification of the malfunctioning cycles.

The foregoing approaches to problem analysis are complementary to one another. They are expected to provide a deeper understanding of the problem phenomenon. They may thence enable us to deduce the nature of policy measures required for dealing with the problem. Hence the process of analysis of the problem and the problem solution are sought to be logically related instead of making policy recommendations on the basis of ad hoc, arbitrary and intuitive considerations.

In the next chapter, we outline the socio-economic profiles of the eight industrial units investigated by us.

1. See P.N. Rastogi: An Introduction to Social and Management Cybernetics (New Delhi: Affiliated East West Press, 1979).

P.N. Rastogi: Intelligent Management Systems - Cybernetic Analysis of Industrial Organization and Management (Kanpur: Memo, Dept. of Humanities and Social Sciences, IIT, 1981).

## CHAPTER III

### SOCIO-ECONOMIC PROFILES OF THE SELECTED INDUSTRIAL UNITS

#### 3.1 Growth of Small Scale Sector in Karnataka:

Karnataka is known for its industrial tradition. The Princely State of Mysore (now Karnataka) had laid a solid foundation initiated by its illustrious Diwan, Dr. Sir M. Visveswarayya. Department of Industries and Commerce was organised in the year 1913.<sup>1</sup> It promoted industrial activity in Karnataka. The industrial sector of the state has been expanding since independence.

Karnataka State ranks seventh in the country in respect of the number of small scale units.<sup>2</sup> Table 3.1 shows the growth of this sector in Karnataka. The overall growth rate of small units between 1966-75 was only 44 percent. Between 1972-76, however, there was a 150 percent rise in the number of units over the year 1971. It was one of the highest growth rates in the country.<sup>3</sup>

1. T.K. Lakshman, Cottage and Small Scale Industries in Mysore (Mysore: Rao and Raghvan, 1966), p. 30.
2. Small Scale Industries in India: Hand Book of Statistics - 1977 (New Delhi: Development Commissioner, 1978), p. 23.
3. M.K. Ramachandra, "Small Units Role in Economy," The Economic Times, dated 23.4.77.

Table 3.1: The number of registered small scale units and their capital investment, estimated production and persons employed in Karnataka (1969-70 to 1978-79).

Sl.No.	Year	Number of units registered	Capital investment (Rs. in lakhs)	Estimated production (Rs. in lakhs)	Persons employed
1.	1969-70	3,900	3,456.70	5,931.60	47,960
2.	1970-71	5,796	5,656.00	10,015.96	90,778
3.	1971-72	8,127	6,958.96	12,114.10	1,12,270
4.	1972-73	10,421	8,334.84	14,317.00	1,35,181
5.	1973-74	13,457	9,963.50	16,849.88	1,57,496
6.	1974-75	15,360	13,963.93	26,947.96	2,13,532
7.	1975-76	16,925	15,545.16	30,628.01	2,26,314
8.	1976-77	18,363	17,040.86	33,531.05	2,41,669
9.	1977-78	20,007	18,572.60	40,979.29	2,66,765
10.	1978-79	21,847	20,175.68	46,279.29	2,83,853

Source: Directorate of Industries and Commerce, Karnataka State, Bangalore, 1980.

From 1977-78 on wards, the industrial climate in Karnataka began to show some disturbing signs with a sharp fall in new investments. The number of small scale industrial units registered with the State's Directorate of Industries and Commerce show a steep fall from 1,707 in 1976-77 to 1,520 in the following year, recording a decline of 11 percent. The provisional certificates issued dropped by twenty-six percent and the number of mandays lost in the state more than doubled.<sup>1</sup> Equally serious has been the problem of increasing sickness in the industrial units.

### 3.2 A Brief Outline of the Characteristics of the Eight Small Units Investigated:

Selection of the units in this study is based on a purposive sample. Apart from matching the selected units in respect of a set of ten control characteristics, the entrepreneurs of the units are also matched in terms of attributes like technical qualifications, training and experience etc. See Table 3.2. They are seen to possess the entrepreneurial attributes identified by many authors<sup>2</sup> like achievement orientation and risk taking (McClelland 1975), exposure to new

1. M.K. Ramachandra, "Spectre of Recession Haunts State Units," Indian Express, Bangalore, dated 15.9.1978.
2. D.C. McClelland, "The Impulse to Modernization," The American Review, Vol. V, 1971, D. Tripathi, "Indian Entrepreneurship in Historical Perspective: A Reinterpretation," Economic and Political Weekly, Review of Management, Vol. VI, No.2, Mar.1971, K.N. Sharma, Social Watershed of Entrepreneurial Growth in India, (Simla: Indian Institute of Advanced Study, 1967), D.P. Pandit, "Creative Response in Indian Economy," The Economic Weekly, Feb. 23 - March 2, 1957.

industrial units.

Unit	Attributes of the Entrepreneurs					Possessal of investible resources
	Technical Qualifications	Technical Training	Work Experience	Age	Familiar with govtl. of new provision ideas & for SSI opportunities in the field	High Motivation
Surya Electronics Laboratory	BE (EE)	i) SIET Hyderabad ii) Instrument Technique Lab. Hyderabad	a) Mysore Kirloskar Electronics Co. 2 years work experience	37	YES	YES
Techno-Electronics Instruments (3 partners)	a) BE (EE)	Training in the product line	a) 4 Years	30	YES	YES
	b) BE (ME)		b) 3 Years	30		
	c) MA		c) FID Parry as sales incharge	34		
Regal Engineering Industry	B.Sc. BE (ME)	Training in the product line	10 years of work experience of running successfully a tool room unit	40	YES	YES
Paxwell Tools and Engg. Enterprises	B.E. (ME)	Foreman Training, special training abroad	16 years as supervisor in Hindustan Machine Tools	43	YES	YES
Sai Electronics (Pvt.) Ltd.	a) BE (EE)	Training in the product line	10 years work exp.	a) 35	YES	YES
	b) BE (ME)		8 years work exp. in private unit.	b) 38		
Electronic Equipments (Pvt.) Ltd.	a) BE (EE)	Training in the product line	a) 6 years work exp.	a) 36	YES	YES
	b) BE (EE)		b) 4 years work exp.	b) 34		
Sabeer Machine Tools (Pvt.) Ltd.	B.Sc. (ME)	Management Training. Training in the product line	Tool manufacturing industry 5 years	36	YES	YES
M/S Precision Tools	Dip. in ME	Special training in tooling abroad	Mysore Kirloskar Machine Tools 2 years, TELCO, 1 year Abroad 10 years	37	YES	YES

ideas and opportunities (Tripathi, 1975 and Sharma 1967). Propitious industrial climate, supportive response of the political system and proper socio-economic background (Pandit 1957) of the entrepreneurs are also present in our situation. These authors have however restricted themselves to identifying the attributes and preconditions of entrepreneurial development. Their discussion does not throw any light on the problem of sick industrial units whose entrepreneurs may apparently possess all the surface attributes of successful entrepreneurs.

The present study shows that entrepreneurial capability by itself may not lead to the success of an industrial unit. The role performance of the social entities present in the units' environment and the nature of their role interaction with the units is a very significant dimension of the situation in this context. The classification of units according to two product lines is as follows:

(a) Electronics Industry:

1. Surya Electronics Laboratory
2. Sai Electronics (Pvt.) Ltd.
3. Techno Electronics Instruments
4. Electronic Equipment (Pvt.) Ltd.

(b) Machine Tools Industry:

1. Sabeer Machine Tools (Pvt.) Ltd.

2. Paxwell Tools and Engineering Enterprises
3. M/S Precision Tools
4. Regal Engineering Industry

All these units are in the Bangalore metropolis.

Table 3.3 shows in a summary form some of their relevant socio-economic characteristics. In what follows the brief case histories of the selected units are outlined after a brief discussion of the two types of industries i.e., electronics and machine tools to which the selected units belong.

### 3.3 Electronics Industry: A Brief Note:

Electronics industry is one of the crucial sectors of any industrial society. Advanced countries like USA, West Germany and Japan as well as smaller countries like Hongkong, South Korea, Taiwan and Singapore have registered tremendous progress in the field of electronics. On the other hand in India, the development of electronics industry in the last 20 years has not been commensurate with the vast potential that is available for growth. How significant is the achievement of electronics industry is evident from the following statistics. "In the year 1978 in the world production of electronics valued at Rs. 10,0000 crores, India's share was only a paltry Rs. 508.5 crores constituting about half percent only."<sup>1</sup>

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1. "Development of Electronics," The Hindu, Madras, dated 23.1.80.

Table 3.3: Socio-economic profiles of eight industrial units.

Name of the Industrial Unit	Constitution of the unit	Industry	Year of establishment	Technical qualification & exp. of promoters	Capital structure (Rs. in lakhs)	Installed capacity (city lakhs)	No. of persons employed	Location	Status of the unit
Surya Electronics Laboratory	Proprietorship	Electronics	1972-73	BE (EE) SIET Training 5 years work experience	3.21	5.00	17	Industrial Estate	SICK
Sai Electronics (Pvt.) Ltd.	Private Ltd. Company	Electronics	1972-73	BE (EE) 10 years exp.	3.7	5.50	20	Own Building	HEALTHY
Techno-Electronics Instruments	Partnership	Electronics	1972-73	a) BE (EE) b) BE (ME) 5 years exp.	3.56	5.67	20	Own Building	SICK
Electronic Equipment (Pvt.) Ltd.	Private Ltd. Company	Electronics	1972-73	BE (EE) 6 years exp.	3.30	5.37	20	Industrial Estate	HEALTHY
Sabeer Machine Tools (Pvt.) Ltd.	Private Ltd. Company	Machine Tools	1972-73	B.Sc. ME (ME) 7 years training in Machine Tools	4.17	5.5	17	Industrial Estate	HEALTHY
Paxwell Tools and Engg. Enterprise	Partnership	Machine Tools	1972-73	BE (ME) 15 years of work experience	4.18	5.50	20	Industrial Estate	SICK
M/S Precision Tools	Proprietorship	Machine Tools	1972-73	Dip. in ME 12 years of exp.	3.77	4.5	15	Industrial Estate	HEALTHY
Regal Engineering Industry	Partnership	Machine Tools	1972-73	B.Sc. BE (ME) 10 years of work experience	3.20	4.00	16	Own Building	SICK

+ Here installed capacity is given in value of the goods that can be produced per annum.



Bhabha Committee was constituted in 1963 to recommend policies for promoting electronics industry in India. The report of the committee gave impetus to the growth of this industry. During 1970, Department of Electronics was established. In 1971, Electronics Commission was set up. However, performance of both these bodies increasingly came under attack due to their inefficient functioning. Sondhi Committee submitted its report on the functioning of both these bodies and also on the future course of development of electronics industry in India.

In Karnataka, Karnataka State Electronics Development Corporation was established in 1974 to promote this industry.

Karnataka State Financial Corporation (KSFC) by the end of year 1978 assisted 28 small electronics units by providing them with term loans to the tune of Rs. 90.09 lakhs. Out of these, 27 units utilized a sum of Rs. 71.06 lakhs. Of these 27 units, 18 have turned chronic defaulters involving a sum of Rs. 27.62 lakhs. In other words sixty-six percent of the electronics units financed by KSFC are facing serious problems and have turned sick.<sup>1</sup>

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1. Personal inquiry notes.

### 3.4 Brief Case Histories of the Selected Electronics Units:

In what follows, we give brief case histories of the electronics units one by one.

#### 3.4.1 Surya Electronics Laboratory:

This is a proprietary unit established in the year 1972-73 by a technically trained entrepreneur for manufacturing different kinds of electronic relays used by the bulk purchasers of electronic goods. The loan for the firm was sanctioned in the year 1972 and the building, machines, power and personnel were ready in time. However, the unit could not go ahead with the production of relays for want of imported raw material, which constituted some ten percent of the total raw-material requirement. The entrepreneur had applied for the grant of an import licence well in advance. The grant of licence was inordinately delayed. A major portion of <sup>the unit's</sup> ~~his~~ machinery and equipment thus remained idle and he could at best only do some odd jobs. Workers used to come and sit before the idle machines. The entrepreneur desperately searched for new products to manufacture. Lack of technical know-how for the proposed products led him to put an expert incharge of the development of a new product. He spent an additional sum of Rs. 80,000 for the new product. When the prototype of the new product was ready, the technical expert incharge deserted him due to certain differences. Thus in the

second year again he was faced with the problem of what to manufacture. In the mean while, his working capital was gradually eaten up by the product development and other statutory payments. The entrepreneur at this stage closed the unit for six months. After this period he again tried to run the unit against heavy odds. He started manufacturing voltage stabilizers considering the limited resources at his disposal. For this consumer product he slowly gained market acceptance as there was a demand for this item. To improve his product mix and to utilize the machinery and equipment he also went in for production of power supplies and allied products. But in the absence of sufficient working capital the volume of production remained very low.

KEONICS\* came forward to market the voltage stabilizers under its brand name. The deal however could not be finalized due to disagreement over some issues.

The entrepreneur wanted to proceed with the production of whatever products he was then manufacturing. His Bank however refused to extend and review his working capital loan as the surety for the loan was to be executed anew<sup>+</sup>. The entrepreneur's father who had earlier stood as surety refused

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\* Karnataka State Electronics Development Corporation (A State Government enterprise created to promote electronics industry in Karnataka).

+ Different versions are given by the entrepreneur and the executive of KEONICS. See Chapter IV for details.

to do so again because of some differences. The entrepreneur hence has been put in a difficult situation. Though he has received promises of orders worth Rs. 20 lakhs he <sup>could</sup> ~~can~~ not take up increased production and continues to operate under very low capacity utilization..

Lack of proper planning coupled with the unforeseen problem of securing imported raw material, erosion of working capital due to new product development, closure of the unit for six months and mounting interest burden increased the enterprises over-head costs and destroyed the venture's profitability. The unit is at present barely managing to survive in a sick state.

#### 3.4.2 Sai Electronics Private Limited:

This is a private limited company promoted by three technically trained entrepreneurs backed by two scientists in the electronics field. In the initial stages the project was very ambitious. Due to a sudden drop in the demand for its products, the company then wisely limited its size and operation. The company started the production of electro-mechanical components like antennas and integrated circuit chips in its own premises situated in a developed industrial area. Technical know-how was provided by National Aeronautics Laboratory, Bangalore. The unit started production in 1973-74 and incurred a loss of Rs. 0.31 lakh in that year. From the year 1974-75

onwards the unit has however been earning profit. The unit could not however achieve its projected turnover and its capacity utilization to a fuller extent due to a slackening of demand for its products.

The unit is managed by persons with sound technical background and has been operating relatively efficiently. It has maintained its health inspite of the sudden changes in its environment i.e., varying market demand for its products. The unit twice submitted its renewed project report to KSFC when it foresaw a situation of declining orders from its principal customer. This move on the part of the management to reduce its size and volume of operation enabled it to manage the critical period during its first and second year of operation.

The project plan of the firm was executed according to the schedule. There was no delay in project commissions leading to the delay in project start up period. Management of the company was however not prepared to face a situation when the production of their major products had to be curtailed almost by fifty percent. Due to the absence of a better product-mix, the unit's performance was affected considerably. However, it did not turn into a sick unit even under such adverse conditions. But the performance of the unit has remained almost stagnant over the years. Unless the unit

manages to market a larger volume of production and introduces new products, its viability could be affected in future. The initiative from the management towards these issues have not been forth-coming. The company could not achieve its projected turn over due to following reasons: (1) A drastic cut in the country's defence budget in the year 1973-74, forced Bharat Electronics Limited to withhold orders from National Aeronautics Limited (NAL) which used to pass on these orders to this unit for execution. The volume of business of the firm was therefore reduced to fifty percent as NAL was the firm's principal customer (random environmental change) (2) The project's nature had been <sup>in</sup>changed due to the introduction of certain modifications in the production technology which was provided by NAL (3) The expansion of the unit could not be undertaken as it did not have a proper product mix and whatever they produced was mostly supplied to a single customer i.e., NAL only. Due to the foregoing factors and the management's inability to expand its production and sales in terms of a profitable product mix has led the unit to a stagnating performance.

#### 3.4.3 Techno Electronics Instruments:

This unit was established in the year 1972-73 as a partnership concern. Two of the three partners were technically qualified engineers, while the third was trained in marketing. The technical know-how to the firm was provided by

two national research organizations viz., National Aeronautics Laboratory (NAL) and National Research Development Corporation (NRDC). The technical base of the firm was further strengthened by the induction of a senior inspector from NAL as in-charge of production.

The unit did well in the first year after completing its project and earned some profit. As the marketing base of the firm was strong, the unit picked up the market for its products without much difficulty. At a time when the production and demand were increasing, the production incharge left the firm with some workers for starting his own unit. This development resulted in the poor production performance of the firm along with a deterioration of the products' quality. In the meanwhile, one of the partners also left the firm after taking away his good-will. This reduced the resources of the firm considerably. The partnership was however continued by the remaining two partners. The partner who was incharge of the production neglected the supervision of production as he had to visit Madras very often. Due to this continuing neglect, the production of the firm declined and many pending orders could not be met. The unit thence began to lose money and failed to pay its instalments of the term loan and the working capital loan. The firm thus lost its credibility with the bank which became strict in its dealings with the firm.

products. This led the company to invest large sums in the infra-structure. Though this investment may not give immediate returns but the long run benefits of these investment policies are indisputable.

### 3.5 Machine Tools Industry: A Brief Note:

From a small beginning made in the early forties, the country today produces machine tools worth over Rs. 100 crores. A number of tool room units were started to feed the large machine tool industries and other user industries like engineering and automobile etc. There was a rapid growth of tool room units during the sixties and seventies. However, most of these units could not develop as viable ancillary units as a result of many problems. Delayed realization of overdue bills, lack of skilled labour, high labour turnover and low capacity utilization are some of the major problems faced by the small tool room units. Many tool room units financed by KSFC under such conditions had to abandon their original production schedules and depend mostly on work of an irregular nature.

KSFC had financed up to March, 1978, 40 tool room units to the tune of Rs. 122.39 lakhs. Out of these nearly 40 percent of the units are sick involving a financial outlay of Rs.45 lakhs.<sup>1</sup>

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1. Personal inquiry notes.



diversion of large funds toward the development of new products.

The company was constituted by technocrats and businessmen. It had thus a good combination of talents. The chairman of the company was an ex-chief engineer of the State Electricity Board. It was reconstituted in the year 1974 when the chairman and some directors left the company.

The company's organization-setup is well organized. A chartered accountant was appointed by the company in the year 1978, when a need was felt for the same. This helped in streamlining the accounts, raw material purchases and costing. Due to improved management of the finances, the company achieved a higher margin of profit.

The man incharge of production and product development is a highly trained person with work experience in West Germany. The unit has won an award from the Central Government for import substitution. It enjoys a good reputation for its products, which are supplied to various research institutions in the country. Its labour force is skilled and the labour relations are good.

The major drawbacks of the unit have been its failure to generate sufficient surplus for expansion. The management adopted a policy of product development and sophisticated quality control to assure the quality and precision of its

products. This led the company to invest large sums in the infra-structure. Though this investment may not give immediate returns but the long run benefits of these investment policies are undisputable.

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1. Personal inquiry notes.

### 3.6 Brief Case Histories of the Selected Machine Tool Units:

In what follows, we give brief case histories of the machine tools units one by one.

#### 3.6.1 Sabeer Machine Tools Private Limited:

This is a small scale machine tool room unit developed and managed in such a way that it is growing into a bigger unit. Its success is primarily due to the dynamic and effective business policies adopted by its management. The unit is run by a trained technical graduate entrepreneur who is the managing director of the company. Though the unit is a private limited company, the other directors being his wife, mother, and another woman, the main responsibility of running the unit lies with the managing director. The entrepreneur holds B.Sc. and AMIE., (Mech.) degrees and had also training in management and work experience before starting the unit. The company was established in the year 1972 and started production in 1973-74. It achieved a turn over of Rs. 2,00,000 but incurred a loss of Rs. 50,000 in 1973. This did not demoralize the entrepreneur who was facing competition from the bigger and established units. Considering the general performance of other tool room units the performance of this unit was fairly good in the first year.

The commercial (trade) loss in 1973-74 was to some extent due to the high costs of the raw material purchased. But the primary reason was the poor quality control of the product.

The product rejection rate was as high as 15 percent of the total production. By the third year, the entrepreneur had overcome his problems of quality control. He also took the advice of an experienced chartered accountant to manage his finances in an optimal manner. His growing commercial knowledge then enabled him to handle his purchases and sales transactions more effectively.

The entrepreneur hired trained labour and he himself used to work along with the workers. These efforts on the part of the entrepreneur improved his production and the loss incurred during the first year was fully absorbed in the next four years. By the sixth year the unit achieved a good turn over which wiped out its previous losses. During the fifth year it started earning profit and has been performing well since then. During the year 1975-76 when there was a general recession in machine tools industry, KSFC sent reminders for the payment of the outstanding loan instalments. Somehow the entrepreneur failed to respond to these reminders. Without actually visiting the unit, KSFC then took stern action of issuing a legal notice to the unit. The notice was later withdrawn after the payments were made. The entrepreneur views this event as an instance of the insensitivity of the official bodies like KSFC. He was very critical of the attitude of the financial institutions and governmental organizations which he perceived as very unhelpful.

The performance of this unit underscores the role of the entrepreneur in shaping the future of his small unit operating in highly competitive business conditions. It also brings out the failure of the financial institutions to understand and appreciate the genuine difficulties of the entrepreneurs. This case shows that a unit can develop into a healthy unit inspite of incurring losses for four years, if the production work does not suffer and sustained efforts are made by an entrepreneur to learn from his mistakes.

### 3.6.2 Paxwell Tools and Engineering Enterprises:

This is a partnership concern manufacturing machine tools. Of the two partners one is a sleeping one, while the other is a technically trained engineer with BE (Mech.) degree. The technically trained partner serves as the manager. The manager-partner after putting sixteen years of service in different capacities in one of the leading machine tool factories, started this unit after resigning his well paid job. After seven years of bitter experience in his small scale unit he regrets having left his previous highly paid job.

The unit was scheduled to start in 1973. But the delays in securing the required machinery led to the postponement of production by one year. The unit started production in the year 1975 and did a fair volume of business but incurred a loss of Rs. 72,839. During the second year of production,

the unit wiped out the previous loss and made some profit. But in the next year i.e., in 1976 the unit again plunged into financial losses. The volume of business not only failed to expand as expected but actually declined. The unit's production came down to only 40 percent of its installed capacity. It has remained stagnant at that level. Such a situation has affected the future growth of the unit considerably.

The managing partner could not by himself tide over the crisis. The unit lacked the marketing skills. Due to poor sales skills, the sales suffered as a result of which the production also suffered. A major portion of the machinery and equipment remained underutilised leading to increased overhead costs. Finally the entrepreneur was forced to sell a part of the machinery. In the process the unit further incurred a loss of about Rs. 40,000.

Labour turn over in the unit was high. The enterprise faced difficulties in getting and retaining the skilled labour which in turn affected the quality of its products and the delivery schedules to customers. Financial position of the firm was weakened by the losses. The unit's working capital base was seriously eroded. This situation forced the unit to accept fewer and fewer orders. Whatever orders were secured and executed by the firm, were moreover not paid for in time. This situation further retarded the firm's ability to meet its financial obligations.

The entrepreneur failed to consolidate the progress made by the unit in the first year. He also failed to acquire and retain the trained personnel to carry out the vital production function. He also failed to strengthen the marketing function by not employing an experienced salesman. The entrepreneur himself had to look after every thing. Thus heavy work-load on manager-partner resulted in the poor coordination of production, sales and the receipts of orders. The entrepreneur thence failed to keep up and maintain the firm's vital relationships with the firm's customers.

This case illustrates the following points:

Lack of organizational skills led to a weakening efficiency of the unit. The unit thence failed to increase its production and sales. Dwindling orders contributed to the increasing overhead costs, thereby reducing the profit margin and diluting the equity. Continued operation of the unit with large underutilized capacity led it to a position of deteriorating performance and it has presently ended up as a sick unit.

### 3.6.3. Messrs Precision Tools:

This unit is owned by an entrepreneur manufacturing machine tools and other allied products. The products of this unit have a good market-demand and enjoy reputation for quality. The unit has been expanding its activities

as a result of its continuing success. The unit was started in the year 1972 by a technically qualified entrepreneur who had worked in machine tool industries in Canada and USA for 10 years. He ensured sound long range marketing arrangements before actually starting production. He was able to enter into a business contract with a Bombay firm for an annual turnover of Rs. 1 lakh. This business arrangement enabled him in the initial stages to sustain the unit's development and lay a good foundation for its future growth.

The entrepreneur with his specialized training in tooling abroad was successful in maintaining the precision and quality of his products. He thus did not have much difficulty in establishing the credibility of his unit and its products. A high quality control with a very low rejection rate and the initial marketing assistance helped the unit gain competitive edge over other units. Up-to-date accounting and carrying out of the organizational activities in a systematic and timely manner were introduced from the beginning. The entrepreneur is assisted by his son who is also a diploma holder in mechanical engineering. He looks after the supervision of production. The outside business contracts, raw material purchases and dealings with the officials are all looked after by the entrepreneur himself. The unit has been making profits consistently. These profits have been reinvested wisely to promote business growth. However, this



entrepreneur was also critical of the attitude of the financial institutions and official service organizations for small scale industries. Some of the other difficulties experienced by him related to inadequate and irregular supply of raw materials, bureaucratic red-tapism and inordinate delays. As an illustrative example, the entrepreneur cited how KSFC took more than five months to reply to a letter from the unit seeking permission to replace an existing machine with a new high capacity machine. The unit possesses skilled labour and has very less labour turnover.

This case points out that strong marketing coupled with efficient organizational skills and sound technical expertise can make a tool room unit a great business success.

#### 3.6.4 Regal Engineering Industry:

When an entrepreneur becomes hasty and over-enthusiastic, he ends up with many problems. This is the case of Regal Engineering Industry. The entrepreneur here also is a trained and experienced person in the machine tools industry.

After successfully managing a tool room unit, the entrepreneur decided to start another unit in the same line. Along with family members, he floated this unit as a partnership concern in the year 1972. The location of the unit is very near to the first unit and is housed in a building owned by the entrepreneur.

In the year 1973 the unit earned a small profit of Rs. 7,000. In the next year also the performance of the unit was similar i.e., it earned a profit of Rs. 7,500. But in the third year the volume of business dropped from Rs. 2.5 lakhs to Rs. 1.5 lakhs only leading to a loss of Rs. 11000. The production went on declining reaching a level of Rs. 0.80 lakh only in 1977-78. The average capacity utilization was 30 to 35 percent during this period.

When the unit was started it used to collect 30 percent of the bills as advance from the customers against their orders. This amount was used as working capital. The customers however due to tight financial constraints at their end, stopped giving advances to this unit. This factor was not foreseen by the entrepreneur and hence he had not borrowed the working capital when he started the project. This situation resulted in the firm's facing a shortage of working capital, due to which the capacity of the firm to carry out its production activity was paralysed.

In the mean while, a labour problem also developed in the unit due to the removal of a worker. The workers went on strike for a period of six months.

The entrepreneur did attempt to raise working capital from an industrial cooperative bank. It took a lot of time for the bank to process the unit's application for working

capital loan. The bank finally turned down the unit's loan application. The bureaucratic delays caused by various such formalities frustrated the entrepreneur's attempt to secure a working capital loan for this unit.

During the crisis period the entrepreneur also thought of developing a new product, a capsule filling machine, for which there was a good demand. He associated with another firm and developed a successful prototype. He did receive some orders for the new product. But production on a requisite scale could not be taken up due to the shortage of funds. Thus the unit continues to operate with a very low capacity utilization and has turned into a sick entity. There was lack of proper organization and production supervision as the entrepreneur was looking after two firms. Some diversion of funds from the business for family purposes also aggravated the financial problems of the unit culminating into a situation of working capital shortage.

This case also illustrates a lack of proper financial planning and poor management of labour relations. It also brings out as in the earlier case studies the lack of concern and time consuming formalities on the part of financial institutions. If the financial institutions had offered help towards the firm's working capital requirements, there was every possibility that the firm would not have become a sick unit.

### 3.7 Conclusions:

This chapter has delineated the socio-economic profiles of the healthy and sick units in terms of their brief case histories. These case histories serve the purpose of providing a synoptic overview of the course of the units' careers. In the next chapter, we analyze the role performance of these units in detail.

## CHAPTER IV

### ROLE PERFORMANCE OF THE HEALTHY AND THE SICK UNITS

In this chapter we shall depict the role performance of the healthy and the sick units and attempt to bring out the differentiating factors and factors of agreement between and amongst the healthy and the sick units.

As seen in the last chapter, all the eight entrepreneurs in the present study are educated, exposed to new ideas, technically trained, aware of the business opportunities, familiar with the provisions of governmental help for the entrepreneurs, possessive of some investible capital of their own, young and motivated. According to the literature on entrepreneurial development, these are also the characteristics associated with successful entrepreneurial performance. However, we find that despite the possession of these common basic characteristics of entrepreneurship, half of the units have failed i.e., become 'sick' while the remaining have achieved varying degree of success. The problem of the sickness of small scale units hence calls for a deeper level of study beyond the surface characteristics of the entrepreneurs.

This deeper level of study calls for an explanation of the interaction of internal and external factors of the industrial enterprises viewed as social entities in their own right. The interaction perspective then translates itself at an analytic level into the interaction of the industrial units as social entities (i.e., social actors) with other social entities (organizations) in their environment. The concept of social role then becomes attributable to an industrial unit viewed as a collectivity. This is also in accordance with the concept of industrial organizations viewed as corporate citizens of the society wherein they function.

#### 4.1 Norms of Role Performance and Health Status of the Units:

In this chapter, we briefly outline the role performance of the units concerned since their inception. The dimensions of the role performance delineated in this context are: the commissioning of the project i.e., the start-up period of the unit, production, marketing, acquisition of raw materials, financial position and labour relations. Norms of role performance in the present context in an analogous manner would be the start-up of the unit according to a planned schedule, annually increasing production reaching upto and/or exceeding its projected levels, increasing sales, smooth acquisition and availability of all the required raw materials, increasing

revenue and requisite profit level and harmonious labour relations with low turnover of the labour. These norms of role performance emanate from the functional areas of the industrial units. A unit operating according to these qualitative norms of role performance would thence be 'healthy' while a 'sick' unit would display a reverse set of role performance indicators. The delineation of the role performance of all the eight units would thence also bring out the interaction of the internal factors with their environmental entities. More specifically it would enable us to understand the nature and consequences of a unit's interaction with other social entities in its environment and the bearing of this interaction on the unit's health and performance.

#### 4.2 Project Formulation and Commissioning: A Brief Note:

An industrial project usually originates as a vague idea in an entrepreneur's mind after noticing the demand for certain products i.e., a potential market evidenced by unsatisfied local demand met by imports. Some other factors which encourage the entrepreneurs to start small scale industries are:

- (a) Attractive state and central subsidies.
- (b) Liberal financial and other infrastructure assistance.
- (c) Self-employment and social prestige of owning an industrial concern.

The vague idea of owning a small scale unit has to be translated into a viable project proposal which should be technically sound and financially feasible. The success of the unit largely depends upon the proper formulation of the project. The project formulation is an important exercise which requires a thorough ground-work and planning of various logistic and financial aspects of the project. This has been brought out by the study conducted by Mayer and Sydney.<sup>1</sup>

The project reports prepared by the promoters of the units under study, showed considerable weaknesses in their formulation and proper planning. It was especially so in the case of units that later became 'sick'. We also found in our study that the units do not always give all the necessary information alongwith the project reports. This causes delay in sanctioning the loan and also at times leads to other problems. A project, in order to be sanctioned by Karnataka State Financial Corporation (KSFC) must be accompanied by a complete project report and should contain all data regarding the promoters of the project, financial requirements, cash flows, sales projections, employment level, and marketing arrangement etc. KSFC has also laid down certain requirements to be fulfilled by the entrepreneurs. The following are the main

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1. Kurt Mayer and Sydney, Goldstein, The First Two Years: Problems of Small Firm, Growth and Survival, (Washington D.C.: Small Business Administration, 1961), pp. 56-57.



requirements laid down by KSFC.<sup>1</sup>

(a) The project should be technically sound in respect of the manufacturing process, adequacy of the plant and equipment, availability of raw materials and essential services and the schedule of implementation. Due care should have been given to the dispersal of the effluents, if any, and to other aspects of pollution control.

(b) The project should be financially sound. The aspects scrutinised are: the estimated cost of the project, capital structure, promoters' contribution, debt-equity ratio, sources of finance, projected profitability, cash-flow and internal rate of return.

(c) The project should be commercially well-planned and should hold an assurance of managerial competence.

(d) The project should also fulfil certain social objectives like:

- (i) Creating employment
- (ii) Development of an industry in a backward area
- (iii) Stimulating the growth of ancillary industries and
- (iv) Triggering off other economic activities.

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1. Assistance to Industry (Karnataka State Financial Corporation Booklet - 1978), p. 5.

All the applications for loans are processed by the technical appraisal section of KSFC in the light of their foregoing criteria and objectives.

A small scale project is usually expected to go on stream in three years. The first year is meant for project completion, the second year for reaching a break-even point and the third year for earning profits in a steady manner. Hence, the timely execution of project is of utmost importance for the success of a small unit. Undue delays may result in a unit's catastrophic failure since a small unit does not usually have excessive financial strength to survive the initial failure. Delays caused by the units' promoters due to their inadequate preparation coupled with the sequential delays on the part of the financial agencies create a serious situation of inordinate delays in the start-up of the projects. These delays seriously disturb the schedule of the project and create large performance gaps. Sometimes the wide gap between the projected and actual performance of a unit may threaten the very viability of the unit itself. Detailed analyses of the unit's performance gaps enable us to gain a proper understanding of the crucial internal and external factors responsible for engendering the performance gaps.

In the following pages brief studies of role performance of 'healthy' and 'sick' units from electronics and machine

tools industries are outlined. The discussion of the role performance of a unit is structured along the following lines:

- (i) Project commissioning, delays and various problems encountered by the units from the external organizations during the course of the project's commissioning.
- (ii) Performance of the unit in its important functional areas i.e., financial position, production, acquisition of raw materials, marketing and labour relations.
- (iii) An examination of the unit's role interaction with the social actors in its environment.

#### 4.3 Sick Units from Electronics Industry:

As mentioned in the previous chapter the two sick units in the electronics industry are:

- (i) Surya Electronic Laboratory
- (ii) Techno Electronic Instruments

We discuss their role performance one by one.

##### 4.3.1 Surya Electronic Laboratory:

This sick 'unit' has not only failed to generate the projected volume of internal surplus but is presently in serious financial doldrums. The Table 4.1 indicates the projected and actual performance of this unit from the year of its inception.

Table 4.1: Projected and Actual Figures of Production and Profit of Surya Electronics Laboratory.

Year	Production (Rs. in lakhs)		Profit (Rs. in lakhs)	
	Projected	Actual	Projected	Actual
1973-74	1.5	0.00	0.10	-0.710
1974-75	2.00	0.10	0.40	-0.602
1975-76	3.00	1.25	0.60	-0.153
1976-77	4.00	1.50	0.80	-0.158
1977-78	4.25	1.00	1.00	nil
1978-79	4.25	1.50	1.00	+0.055

The above table is self-explanatory. It depicts the unit's progression toward financial crisis. In what follows we discuss the various dimensions of the unit's role performance that underly its 'sick' status.

(i) Project Commissioning:

The project report of this unit was prepared by the entrepreneur after having undergone necessary training and specialization in the production technique. The first and very crucial mistake that he committed was the commissioning of the project without obtaining the necessary licence for the import of a raw-material item. During the scrutiny of his loan application KSFC sought clarification as to why this

licence was not obtained. The sanctioning of the loan could be done only if the entrepreneur had a licence for importing the needed raw-material item. The entrepreneur, however, wrote to KSFC stating that the imported raw-material constituted only 10 percent of the total rawmaterial requirements and that an application for licence had been submitted to the Electronics Commission, New Delhi, and that their approval was expected in due course. He further assured KSFC officials that he could start the production as per schedule. A considerate KSFC released the loan on the basis of this assurance. But as a precautionary measure either KSFC should have intervened in the affair so as to influence the Electronic Commission to issue the necessary licence to the entrepreneur at the earliest or KSFC should not have released the loan until the entrepreneur had obtained the licence to import the raw-material item. This however was not done.

The entrepreneur went ahead with securing premises, machinery, labour and power connection. But the long awaited approval for import on licence did not materialize. He had applied for the licence to the Electronics Commission, New Delhi through the State Directorate of Industries which forwarded the application to the Electronic Commission. He wrote many reminders but failed to get any response from the Commission. When the investigator enquired from the Officials of the

Directorate, they pointed out that they are only forwarding authority and it was the job of the Electronics Commission to issue the licence. The Commission's conduct in the matter here emerges as one of insensitivity and irresponsiveness toward the need of the entrepreneur. At this juncture KSFC could have given a helping hand to the entrepreneur by using their good offices to expedite the matter of licence. On the other hand, the entrepreneur also did not approach KSFC in this connection. The lack of coordination between the various organizations i.e., the KSFC, the State Directorate and the Electronics Commission, coupled with the inordinate delays in procedures and formalities created serious problems for this unit. It took almost one and a half years to secure the licence. This instance supports the criticisms levelled against the functioning of the Electronics Commission and other government bodies.<sup>+</sup>

But even the delayed approval of licence did not serve the unit's purpose as it permitted only 25 percent of the total raw-material requirements to be imported and that too from three different countries. The meagre percentage of import and that too from three different countries amounted to incurring unacceptable costs and delays. This forced the entrepreneur to abandon the production of his main product-item i.e., electronic

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+ See Chapter III.

relays, for which the unit was originally started. The entrepreneur had not and could not foresee these totally unexpected problems. These problems resulted in a situation of production and marketing failure of the unit.

(ii) Role Performance in the Functional Areas:

(a) Financial Position:

The present financial position of the unit is very critical during the year 1973-74 the unit could not produce anything. Hence it incurred a loss of Rs.71,000. In the next year the working capital funds were allocated to new product development. The production in 1974-75 was mainly confined to odd jobs of irregular nature. A financial loss of Rs. 60,000/- was incurred by the unit in 1974-75. From the third year of its inception, the unit started producing voltage stabilizers. The new product item slightly improved the production and lessened the financial burden. The unit managed to achieve a very nominal profit of Rs. 5,500 in 1978-79. But the financial burden on the firm is heavy due to its past borrowings and huge backlog of loan instalments and accumulated interests. Unless additional funds are infused in the unit, it cannot generate sufficient financial resources to overcome its accumulated financial losses. The salient elements of its financial situation are as below:

- (i) Very low volume of business for more than six years.

- (ii) Use of working capital for new product development.
- (iii) Increasing overhead and fixed costs due to continuous low production.

Due to the above-mentioned factors, the working capital base of the firm was seriously eroded. At present the unit is receiving orders from the customers but is not in a position to accept large volume of orders for the sheer lack of working funds. The bank which provided the working capital loan earlier, refused to extend the same further.

(b) Production:

The main characteristic feature of the production function of the unit has been a continuously low production activity. In the first year (1973-74) the unit could not produce anything. In the second year (1974-75) the unit was closed for a period of six months and in the remaining period could do only some odd jobs of an irregular nature. Since 1975 the production of voltage stabilizer was undertaken. Due to lack of working funds and proper marketing assistance, increased production actively at an economic level has not been possible. Thus the continuous poor capacity utilization has contributed largely to the unit's high overhead and fixed costs.



(c) Acquisition of Raw-Materials:

The unit faced a severe problem in securing imported raw material. This has been discussed earlier in detail. The delay in obtaining the licence for the import of raw material forced the entrepreneur to abandon his plan to manufacture his main product i.e., electronic relays, as planned earlier.

(d) Marketing:

The marketing function is looked after by the entrepreneur himself. When the unit started manufacturing voltage stabilizers, KEONICS (Karnataka State Electronics Development Corporation) came forward to market the same under its brand-name. However, this link-up did not materialize due to certain differences between the entrepreneur and the KEONICS. This has resulted in a continuing weak market position of the unit.

(e) Labour Relations:

This unit did not face any labour-problem either in securing the needed work-force or in retaining them. It could not, however, employ the work-force as much as it had envisaged in its project report, due to its low production level. For sometime, in the first year, the entrepreneur simply paid the full wages of the workers without extracting any work worth-mentioning from them. This contributed to the financial burden on the unit. The unit could not create employment for

17 persons as projected due to its low production activity. It could hardly create and maintain employment for 10 workers. Its present workforce consists of some 10 workers only.

To sum-up, the sickness generated in this unit has been brought about by the following factors.

The entrepreneur showed rather poor judgement and optimism in commissioning his project without assuring himself of the supply of an imported raw-material item. As a result, innumerable problems cropped up later. In contrast to the healthy units of our study the entrepreneur here never made any attempt to consult the experts to find a proper and timely solution to his unforeseen problems.

The entrepreneur however cannot be blamed fully. He was enthusiastic about his project and properly trained for producing his main product. He, in good faith believed in the fairness and helpful behaviour of the official agencies like Electronics Commission. But his optimism and faith proved to be misplaced.

Hence the major causal factor in the role failure of the unit here emerges to be the role-performance failure of the social actors in the environment of this unit. The role performance of external social actors was highly incongruous with the norms of their role-performance. The role failure of the Electronics Commission contributed materially to the

serious set-back suffered by the unit. The other social actors like KSFC, KEONICS and State Bank of India also contributed in varying manner to the sickness of the unit by not performing their role of extending help effectively. From the point of the unit, they may be adjudged as having violated the norms of the reciprocity of expectations i.e., not providing timely help and advice for the unforeseen problems faced by this well-trained entrepreneur.

The unit's brief career history toward its financial crisis may be represented as below:

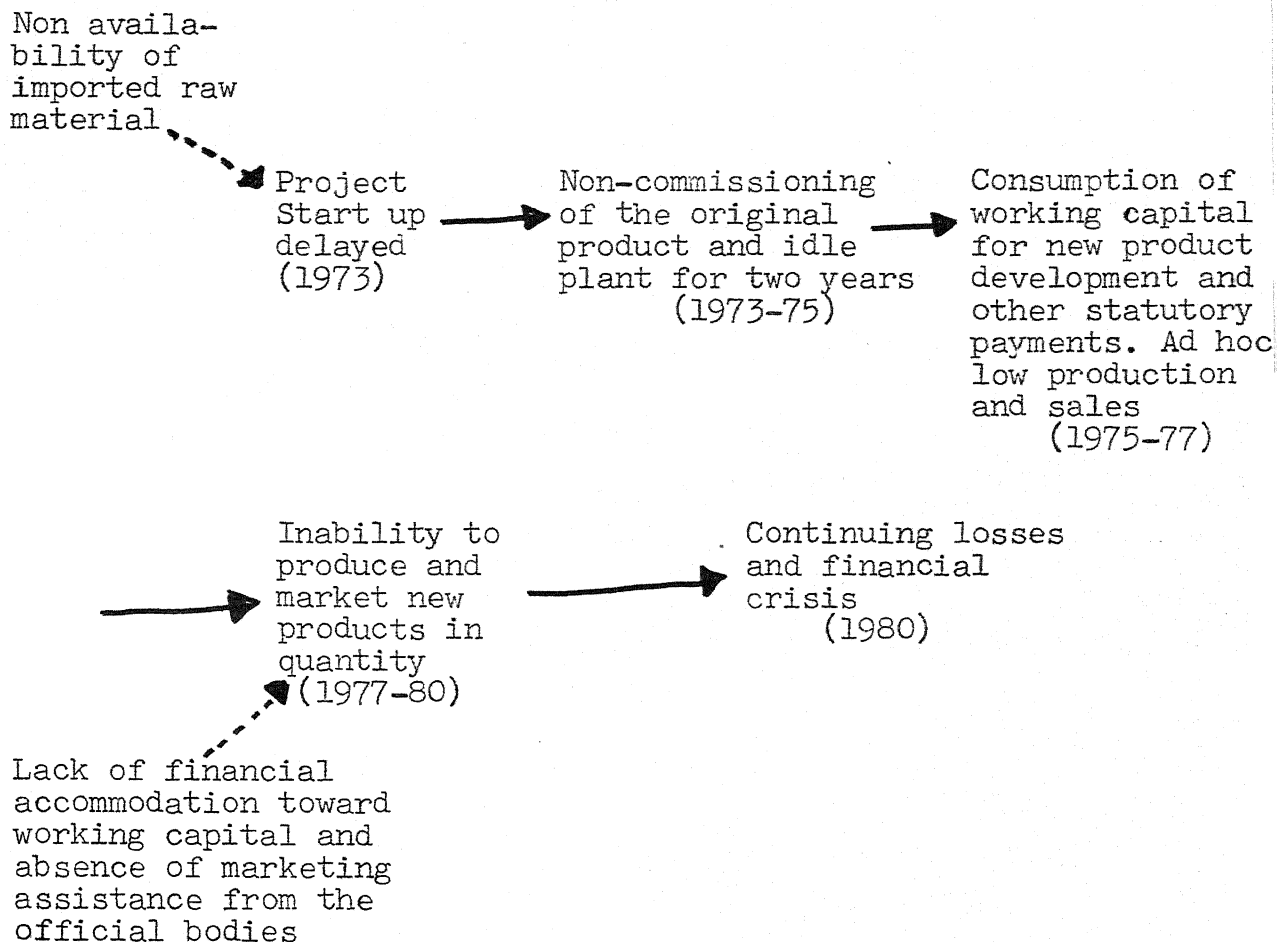


Fig. 4.1: The brief history of Surya Electronics Laboratory.

#### 4.3.2 Techno Electronic Instruments:

This is another 'sick' unit in the electronics industry. The unit's performance was relatively satisfactory during the first two years. But from the third year onwards problems emerged and the unit started incurring financial losses. The production figures dropped, the quality of its products deteriorated, and finally the unit turned 'sick'. The transition toward 'sick' status was in this case mainly an outcome of the differences amongst the partners of the firm apart from a few other less important internal factors. The production and profit record of the firm is given in Table 4.2.

Table 4.2: Projected and Actual Figures of Production and Profit of Techno Electronic Instruments.

Year	Production (Rs. in lakhs)		Profit (Rs. in lakhs)	
	Projected	Actual	Projected	Actual
1973-74	1.00	0.85	0.20	0.10
1974-75	2.50	2.00	0.45	0.30
1975-76	3.50	2.75	0.60	0.42
1976-77	4.00	1.50	0.80	-0.20
1977-78	5.00	1.00	1.00	-0.10
1978-79	5.50	1.00	1.25	-0.25

(i) Project Commissioning:

The project report of this unit was prepared by the Small Scale Industries Service Institute. When the unit started production the external factors were very favourable to the unit. It possessed (a) strong marketing arrangements, (b) sound technical know how provided by NRDC (National Research Development Corporation) and NAL (National Aeronautics Laboratory), and (c) a good demand for its finished products.

There were no delays in the project's commissioning and start-up period. Paradoxically the problems here emerged when the unit started receiving a larger volume of orders. Observing such an increase in demand and the bright financial prospects, each of the three partners formulated his own scheme for the further growth of the unit. They failed to agree on a mutually acceptable course of action. Thus the mutual trust and confidence amongst the partners were eroded. Their perceived individual self-interests led ultimately to the collapse of the unit. Because of the loss of mutual trust and confidence among the partners, the management and the working of the unit deteriorated. Differences amongst the partners and the poor working of the unit created credibility gap amongst the unit's customers and the lending financial institutions.

(ii) Role Performance of the Unit in the Functional Areas:

(a) Financial Position:

Financial position of the unit in its early years was satisfactory. From 1973 to 1976, the unit was making profits. From 1976 onwards, the financial position gradually worsened. The first major set back occurred in the year 1976 when one of the partners left the firm. He withdrew from the firm taking away his share and good will. The liquidity position of the firm was thence affected. The financial position of the firm was further affected due to declining production. The dissensions between the remaining two partners paralysed the unit's production, marketing and labour relations. All these factors in turn further worsened the financial position and the unit started incurring financial losses from the year 1976 onward.

(b) Production:

The production activity of the firm for the first three years showed an increasing trend. The market was favourable and demand for the unit's products was increasing. The production supervisor of the unit was a technically trained ex-employee of the National Aeronautics Laboratory.

He provided sound production supervision and quality control. But he stayed with the firm only for two years. When the differences among the partners became more acute, the

production supervisor left the unit alongwith some skilled workers to start his own unit. This affected the unit's production to a considerable extent resulting in production deterioration and delays. The unit lost many good customers on account of poor and delayed production. The volume of production started declining from the year 1976 onwards and came down to less than 20 percent of its projected production level.

(c) Acquisition of Raw Materials:

This unit did not face any problem in this regard like other 'sick' units. It had obtained the licence necessary for the import of raw-material items before the start-up of the project. However, the quantity and quality of the raw-material did not often fully meet the unit's production requirements.

(d) Marketing :

As pointed out earlier one of the partners partly owned a marketing agency through which the products of the unit were sold. This provided a good marketing channel for the unit and helped it to gain a market standing. When, however, the partner associated with the marketing agency left the concern, the marketing arrangements were also disrupted. Thus the marketing function of the firm suffered a serious set-back. This set back could not be over come due to the dissensions amongst the remaining two partners.

(e) Labour Relations:

The unit could secure the necessary skilled labour without much difficulty for the first two years. However, due to the departure of one of the partners who was also the production-supervisor, some good skilled workers also left the concern with him. This situation contributed to the emergence of labour shortage and consequential production delays. The skilled workers who left could not be replaced easily. The unit had created employment opportunities for twenty workers as projected upto the year 1976. From 1976 onwards some workers left the firm. Along with this, the volume of business also declined. The present strength of the unit's workforce is twelve only.

Small units based on partnerships are vulnerable to sickness due to dissension among the partners and the unsequential withdrawals of capital and goodwill by the outgoing partners. That is what happened to this unit.

The role performance of the unit was primarily affected by the weaknesses in the management of the unit on account of the tending partners. It was pointed out in Chapter III, that the remaining partners of this unit failed to establish the firm's credibility with its customers and the financial institutions on account of their inability to pull together.



KSFC which was aware of this problem could not however do anything in the matter as it lacked the statutory powers to intervene in the unit's affairs. It could however still have played a vital role by bringing together the partners for promoting an understanding amongst them to save the unit. External social actors like KSFC and the bank which provided the working capital loan to the unit could have averted the unit's worsening situation by their timely intervention.

The officials of the KSFC and the bank interpreted their duties in a formalistic and bureaucratic manner and thence refrained from playing a constructive role in the situation.

The unit's brief career history towards continuing losses and financial crisis may be represented as below:

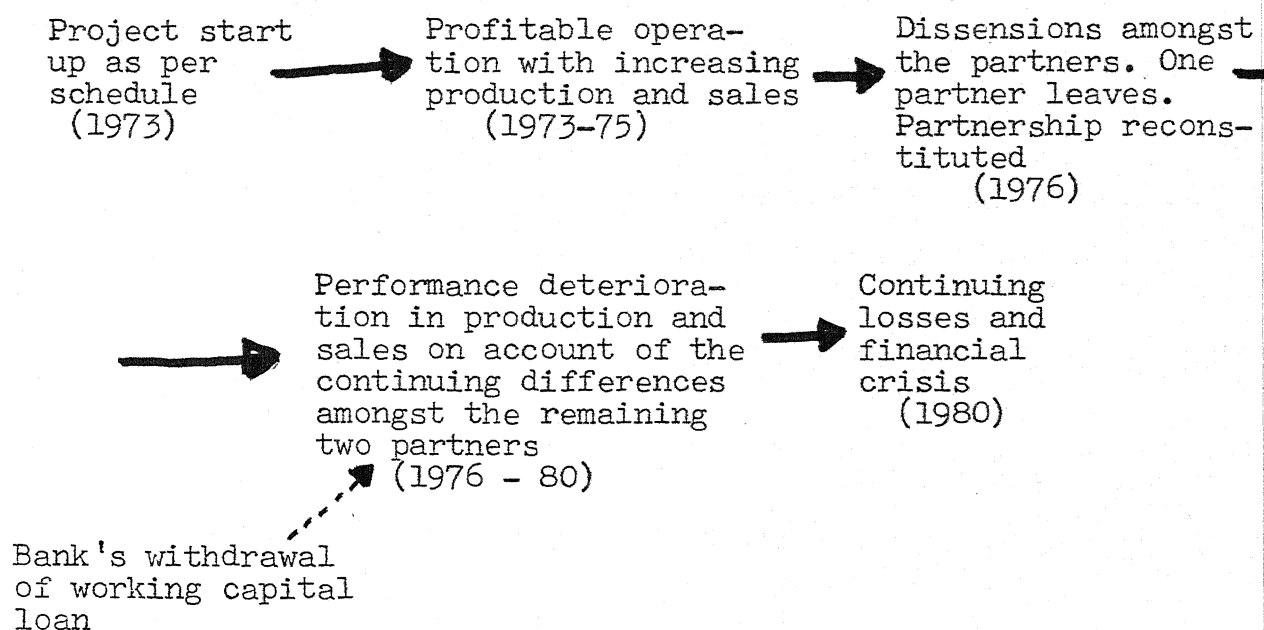


Fig. 4.2: The brief career history. of Techno Electronic Instruments.

#### 4.4 Healthy Units from Electronics Industry:

The two healthy units from electronics industry are:

(i) Electronic Equipments (Pvt.) Ltd.

(ii) Sai Electronics (Pvt.) Ltd.

Their role performance is here discussed one by one.

##### 4.4.1 Electronic Equipments (Pvt.) Ltd.:

In contrast to Surya Electronics Laboratory, this unit had obtained the licence for importing raw material well in advance. Ten percent of the total raw-material requirements was to be imported by this firm as in the case of the Surya Electronics Laboratory.

The project report for this unit was prepared by its promotions. For some of its products NAL provided technical know-how. The performance of the unit has been relatively satisfactory and it could move toward its projected target of production and sales in the first three years of its production. The production and the profit figures of this unit are given in Table 4.3.

##### (i) Project Commissioning:

There was no delay faced by the unit during the time of project commissioning. The project start-up was as per schedule.

Table 4.3: Projected and Actual Figures of Production and Profit of Electronics Equipment (Pvt.) Ltd.

Year	Production (Rs. in lakhs)		Profit (Rs. in lakhs)	
	Projected	Actual	Projected	Actual
1973-74	0.80	1.2	0.20	0.0556
1974-75	3.00	2.51	0.60	0.5221
1975-76	4.37	3.80	1.25	0.13153
1976-77	5.00	4.00	1.30	0.3056
1977-78	5.37	4.00	1.50	-0.50
1978-79	5.37	5.00	1.50	1.00

(ii) Role Performance in the Functional Areas:

(a) Financial Position:

The unit has been consistently making profit and improving its resource-base. However, during the year 1978, it incurred a loss of Rs. 50,000/- due to certain erroneous policies adopted in the purchases of raw-materials and the sales of the finished products. This flaw was however, immediately noticed and steps were taken to remedy it. The unit did not utilize its working capital for any other purposes. The bank is always ready to finance the unit with additional working capital because of the goodwill and reputation enjoyed by the unit in the market. In contrast, the 'sick' units have to slog for additional financial assistance from the bank.

(b) Production:

A trained person is in charge of production supervision. Production is carried on systematically, and in a planned manner. The production of the unit is quite satisfactory since it meets the quality and reliability requirements of the customers. From 1978-79 the production is expanding due to the new products introduced by the unit. The management plans to expand its production capacity. The quality of the products is ensured with the help of highly sophisticated testing equipment obtained by the firm. Production delays and problems of quality control are minimal.

(c) Acquisition of Raw Materials:

In the initial stages of its production, the unit used to purchase its raw-material requirements from the local sources. But when their prices were felt to be too high, the unit entered into an agreement with a Bombay firm for meeting its raw-material requirements at comparatively lower prices. Thus unwanted financial loss was avoided in the purchase of raw materials and the competitiveness of firm improved.

(d) Marketing:

Initially for three years the marketing function was entrusted to a sole selling agency which specialized in the marketing of electronic equipments. At present, the marketing

work is looked after by the unit's own marketing division. The marketing division is headed by a sales and service engineer.

(e) Labour Relations:

The unit's labour-force is well trained. The workers are relatively better paid than their counter-parts in the 'sick' units of the Electronics Industry. The labour turn-over has been minimal. The percentage of the absentees in the labour-force is quite small. Harmonious labour relations are maintained in the plant.

The unit due to its development now employs 41 workers i.e., almost double the number of workers projected in its original project report.

To sum-up, the unit's role-performance is largely in accordance with its norms of role-performance. The performance is also consistent and growth-oriented. The management has learned from its past mistakes and adopted measures to prevent the occurrence of such errors in future. When the unit's purchases and sales were adversely affected, it appointed an experienced chartered accountant to set its financial affairs right. The trained accountant further stream-lined the accounts and costing procedures which eliminated the future possibilities of financial errors.

The unit spends a part of its profits on publicity. This is a unique feature that we find here and not in the 'sick' units. This unit has maintained good reputation for its products, and enjoys high credibility with its interacting external social actors.

From the very beginning, the management of this unit concentrated its attention on building up a strong organization with sound personnel. Whenever any need for advice and consultation was felt, the help of professional consultants was sought in a timely manner. Whereas the 'sick' units attempted to solve their managerial and/or technical problems themselves, this unit took recourse to the expert advice for dealing with its technical problems.

The firm has been investing large portion of its internal revenue surplus wisely for developing the quality of its products. It has been acquiring new and sophisticated types of testing and other equipments. Due to such a long range policy, the unit has succeeded in diversifying its product-mix and is in a position to retain and increase its market share for its products for the next ten years.

The management of the unit is run along efficient and professional lines. Division-of-labour within the firm has resulted in a smooth execution of its plans and projects.

The unit's products have established a high reputation. The management is now planning to expand the unit in a big way.

The unit's career history towards its relatively profitable financial position may be represented as below:

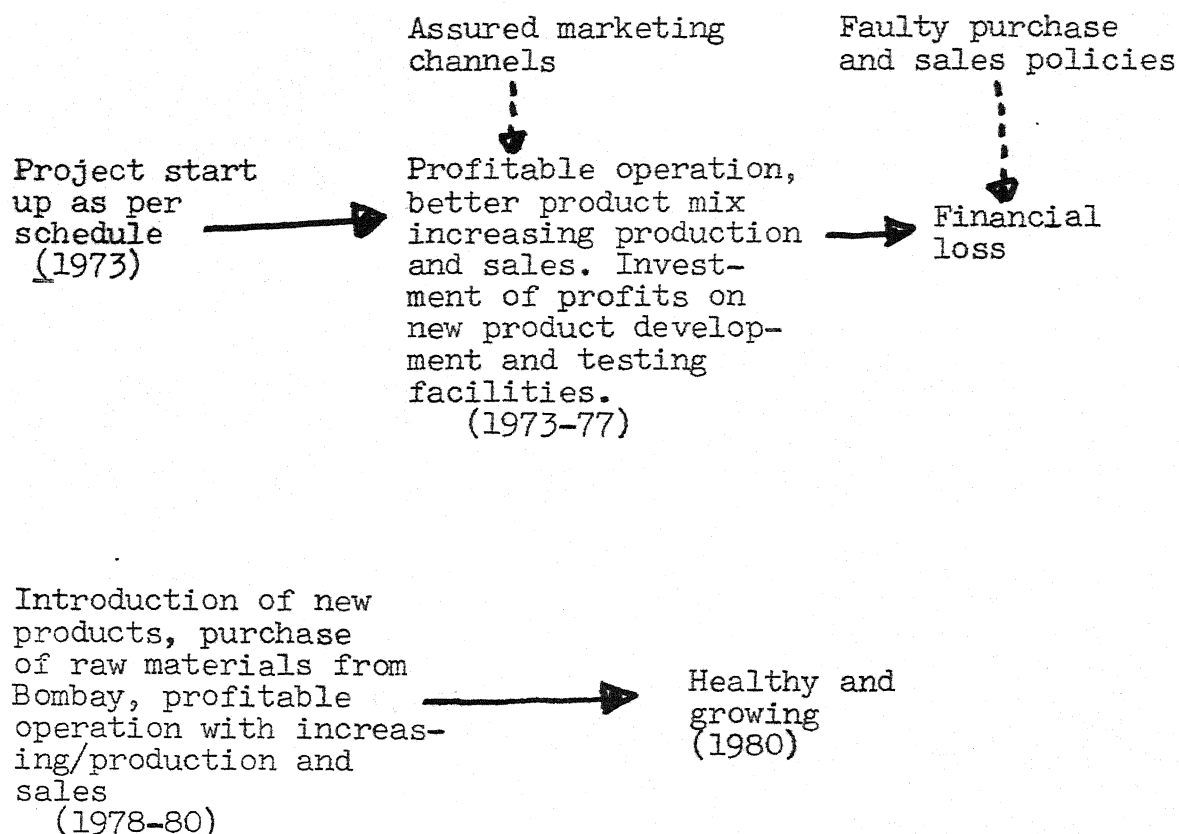


Fig. 4.3: The brief career history of Electronic Equipments (Pvt.) Ltd.

#### 4.4.2 Sai Electronics (Pvt.) Ltd.:

The performance indicators of this unit show that (see Table 4.4) its performance has been largely satisfactory. However, the management of the unit has not been able to increase the quality and volume of its business by creating a better product-mix and expanding the market for its products. This may be attributed to the inertia on the part of the management. Such a situation has however resulted in arresting the growth of the unit. A major part of the production is supplied to the defence organizations through NAL. Hence the business is largely dependent on the orders from NAL.

Table 4.4: Projected and Actual Figures of Production and Profit of Sai Electronics (Pvt.) Ltd.

Year	Production (Rs. in lakhs)		Profit (Rs. in lakhs)	
	Projected	Actual	Projected	Actual
1973-74	2.00	1.00	0.40	-0.310
1974-75	3.00	2.00	0.80	0.108
1975-76	3.00	2.51	1.00	0.304
1976-77	4.00	3.00	1.00	0.207
1977-78	5.00	3.00	1.00	0.5561
1978-79	5.00	3.50	1.25	0.7589

At present the management does not have any plans to expand the unit. Unlike other healthy units, this unit has



not taken up any plans for new product development and/or diversifying its product lines.

(i) Project Commissioning:

This unit differs from Surya Electronics Laboratory in one important respect i.e., the start-up of its project was not delayed. However, the project contained a few drawbacks like, reliance on a single customer, i.e., NAL and no alternative product mixes. These factors have curtailed the growth of the unit to a considerable extent. The project report was revised twice. This action on the part of the management avoided many problems for the unit. Had the unit continued along its original project report it would have become a 'sick' unit.

(ii) Role Performance in the Functional Areas:

(a) Financial Position:

Financial position of the firm is rather satisfactory. The unit did not utilize its working capital for any other purposes and it has not faced any shortage of working capital. The production of the unit has remained almost at a stagnant level. However, the rate and amount of internal surplus created is sufficient to maintain its health. In the first year of its production, the unit incurred a loss of 0.31 lakh. From the year 1974-75 onwards the unit has been making profit. The unit has not however been able to generate higher levels

internal surplus so as to undertake the diversification of its existing production mix.

(b) Production:

Production of the unit has been proceeding smoothly although the unit has not been able to utilize its production capacity fully. At present it is able to utilize only 60 per cent of its installed capacity. The enterprise has however succeeded in earning profits. Quality control of the products is ensured to avoid rejections of the products by the customers i.e., defence organizations. Production delays are very negligible. There is a technically trained production supervisor who looks after the production. The coordination of various activities is looked after by the managing director i.e., the entrepreneur himself.

(c) Acquisition of Raw Materials:

The unit possesses the licence for importing some raw-material items. The licence was obtained well in advance of the project's commissioning. Some raw-material is also purchased locally and its procurement does not pose a problem.

(d) Marketing:

The firm's marketing function has not been entrusted to any external agency. As most of the unit's production is sold to defence organizations through NAL, a separate marketing

link-up has been unnecessary. This aspect of the unit's relationship has assured it of a sustained demand for its products. However, this has also created in a way a market customer constraint on the unit. The unit does not face the problem of the late realization of its bills from its customers and this factor has contributed to the firm's financial viability.

(e) Labour Relations:

This unit does not face any major problem in maintaining good labour relations. Its labour force is committed to work and the workers are well-trained and skilled in the production-technology. They are also relatively better paid than their counter-parts in the sick units. The unit presently employs 25 workers which is 5 more than its projected employment level of 20.

The over-all assessment of the unit's management seems satisfactory though the unit's actual performance has not been very close to its projected performance, yet it has not incurred losses, since this unit is vigilant to see that the repayment of its loan instalments is made promptly, and the delivery of goods is timely, its relations with the financial institutions and the customers are satisfactory. This unit has succeeded in generating internal surplus but presently it is in

a state of stagnation in respect its production and marketing prospects.

The unit's brief career history towards its relatively profitable position may be represented as below:

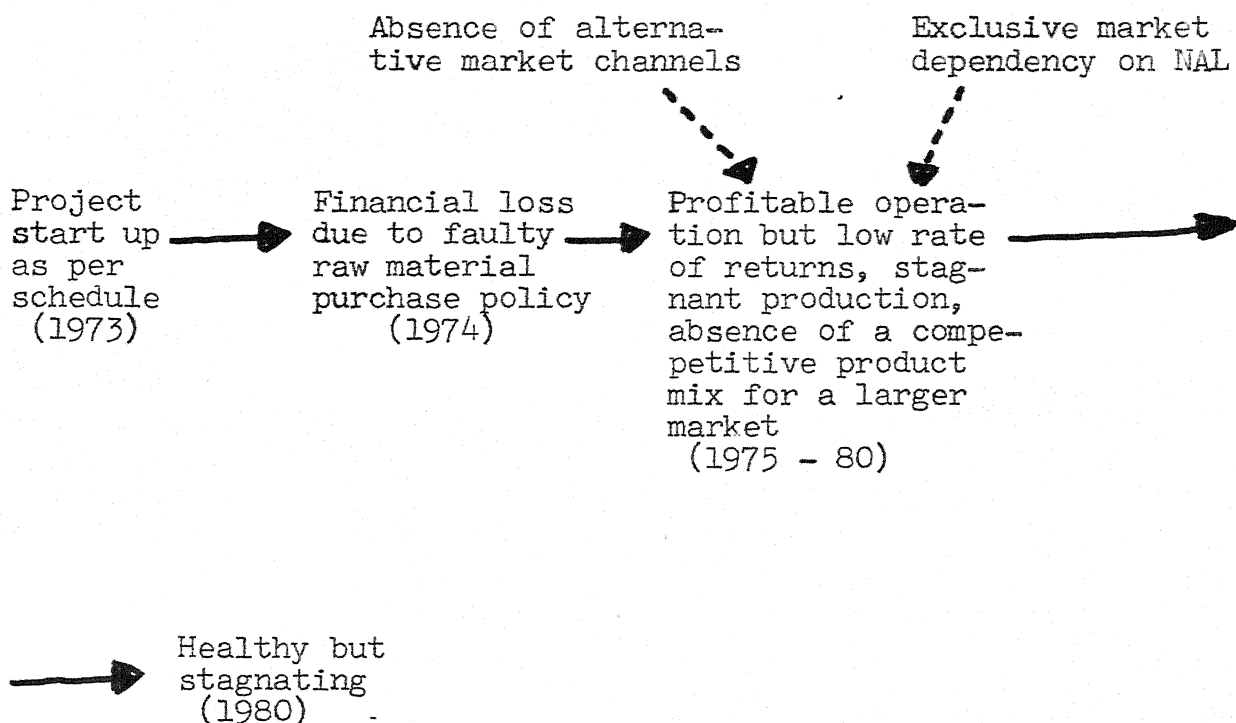


Fig. 4.4: The brief career history of Sai Electronics (Pvt.) Ltd.

#### 4.5 Sick Units From the Machine Tools Industry:

As mentioned in the previous chapter the two sick units in the machine tools industry are:

- (i) Paxwell Tools and Engineering Enterprises.
- (ii) Regal Engineering Industry.

We here discuss their role performance one by one.

#### 4.5.1 Paxwell Tools and Engineering Enterprises:

This is a 'sick' unit characterised by continuing low production activity. Its capacity utilization has never crossed 45 per cent of its installed capacity. In the fourth year of its production, the unit because of its financial difficulties found it very difficult to even purchase the needed raw-materials. The entrepreneur was forced to dispose off a lathe at a loss of Rs. 40,000 as he failed to get any work-load for the lathe. The production and profit performance of the unit is given in Table 4.5.

Table 4.5: Projected and Actual Figures of Production and Profit of Paxwell Tools and Engineering Enterprises.

Year	Production (Rs. in lakhs)		Profit (Rs. in lakhs)	
	Projected	Actual	Projected	Actual
1973-74	1.50	-	0.40	-
1974-75	2.00	0.21691	0.60	-0.72839
1975-76	3.00	1.02407	0.80	0.01697
1976-77	4.00	1.5674	1.00	0.27648
1977-78	5.00	1.0	1.25	-0.37648
1978-79	5.50	0.8076	1.50	-0.22581

The project report of this unit was prepared by its managing director. The unit is reliant for its success on the managing partner's technical skill and training. The managing partner received his training during his service in Hindustan Machine Tools (HMT). His ambition to start a small scale industry made him leave his lucrative job. However, today he is a disillusioned entrepreneur and a frustrated man. He repents having left his post in HMT.

(i) Project Commissioning:

The unit's project start up was delayed for one year. As per the project schedule, the entrepreneur could not start production in the year 1973-74. The important factor which affected the start-up period of the production was the delivery delay of an important lathe. This delayed commissioning of the project was responsible for an accumulated financial loss of more than Rs. 72,000 in the year 1974-75.

(ii) Role Performance in the Functional Areas:

(a) Financial Position:

The unit's financial position has become very weak due to the heavy financial losses sustained by it. The unit incurred a loss of over Rs. 72,000 in the very first year of its production. Hence in the year 1976-77, it wiped out

the previous loss and made some nominal profit. But in the year 1977-78 it incurred again a loss of nearly Rs. 38,000, followed by a loss of over Rs. 22,000 in 1978-79. These cumulative losses have made the financial position of the unit critical. This has become a serious constraint to the unit. Improvement of the performance of the unit is dependent on additional, finance from external source. Unless, this is done, the units financial position would continue to be precarious. As mentioned earlier under the difficult financial conditions, the entrepreneur was forced to sell one of lathes at a loss of Rs. 40,000.

(b) Production:

Production figures of the unit show a continuous low capacity utilization. The production level has never crossed 45 percent of the total installed capacity and is presently less than 20 percent of its projected level. The production costs of the unit are higher as compared to the healthy machine tool units due to increased overhead and fixed costs, and the high costs of the raw-materials purchased in the open market.<sup>+</sup> Hence it could not compete with the healthy units in getting orders.

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+ Both the sick units of Machine Tools Industry buy their raw-materials as and when required due to their limited financial resources. These retail purchases result in the loss of trade discount which otherwise would be available for bulk quantity purchase orders. Further these units had also to face the price escalations of the open market non-contractual purchases.

(c) Acquisition of Raw Materials:

This unit does not possess any raw-materials quota. The entrepreneur did not apply for the quota either. The raw material requirement is met from the open market. The entrepreneur complained that the cost of high speed steel has shot up from Rs. 75/- per kg. to Rs. 145/- per kg., while customers are reluctant to accommodate this hike in their bill. When the investigator asked him how other units are managing to retain their customers, he plainly said that either those entrepreneurs are purchasing stolen raw-materials or they have large inventory of old-priced raw-materials. He did not approach the State Directorate of Industries and Commerce for raw-material quota since he felt that it is time-consuming and insufficient.

(d) Marketing:

The marketing position of the firm is quite weak. There is no separate person employed to look after the promotion of sales. The entrepreneur himself looks after the sales work. In machine tools industry what is important is that there should be a regular and continuing flow of orders for the products to keep men and machinery busy. Due to its high production cost, this unit has not been able to compete with the healthy units. Hence this unit has been unable to secure an adequate market share. The delayed realization of bills from the customers has further affected the units' position.



(e) Labour Relations:

The unit's performance has also been affected by its labour problems. This is partly due to recruitment policies adopted in the beginning. The unit is presently struggling to maintain good labour-relations. There is a high labour turnover. About 48 workers have joined and left the unit within a short span of five years. Only three workers have remained with the unit since the beginning. Medium and large scale industries easily attract the trained and experienced workers by the handsome salaries they can offer and which the small scale sick industrial units cannot usually afford. The disparity even within the small scale industrial units between the healthy and the sick units regarding the wages paid, is marked. The wages received by the workers of healthy units are always higher than those of the sick units of our study. That is why the healthy units have low labour turnover. This unit cannot presently employ good workers by paying higher wages because of its financial position and the low volume of operation. The unit thus could not generate employment opportunities as much as it had projected. It could, create irregular employment opportunity for 15 workers only as against a projected figure of 20.

The management of the unit lacks dynamism in its policies. The managing partner admitted that he is competent to tackle technical problems, but that he lacks skill in the fields of finance, labour-relations and purchase of raw-materials. This may not be an impossible task, still the failure may be attributed to his being over-burdened with various responsibilities as he puts it. Because, the unit's marketing, production, raw-material purchases etc. are all looked after by managing partner alone, the overall effectiveness of the management of the unit has suffered.

Due to the poor generation of internal surplus and increasing overhead costs, the financial position of the unit is in a precarious state. The problem of delayed realization of over-due bills from the customers has further aggravated the financial crisis faced by the unit. Under these circumstances, the managing partner does not wish to take the risk of employing more persons to strengthen the firm's staff-side. But unless the firm's staff and work-force are strengthened, the volume of business may not be expected to increase.

To sum-up, the sickness in this unit is mainly due to the internal factors, that is, due to a lack of dynamism on the part of the management to adopt proper policies. The management failed to stabilize whatever progress it made in the second and the third year of production. Due to its weak

personnel and resource-base and consequential internal factors, it is unable to compete successfully with the 'healthy' units. One or two external factors also did affect the role performance of the unit. The delays in the receipt of some machinery and equipment by this unit delayed the start up of its production for almost a year.

The unit's brief career history towards a situation of financial crisis may be represented as below:

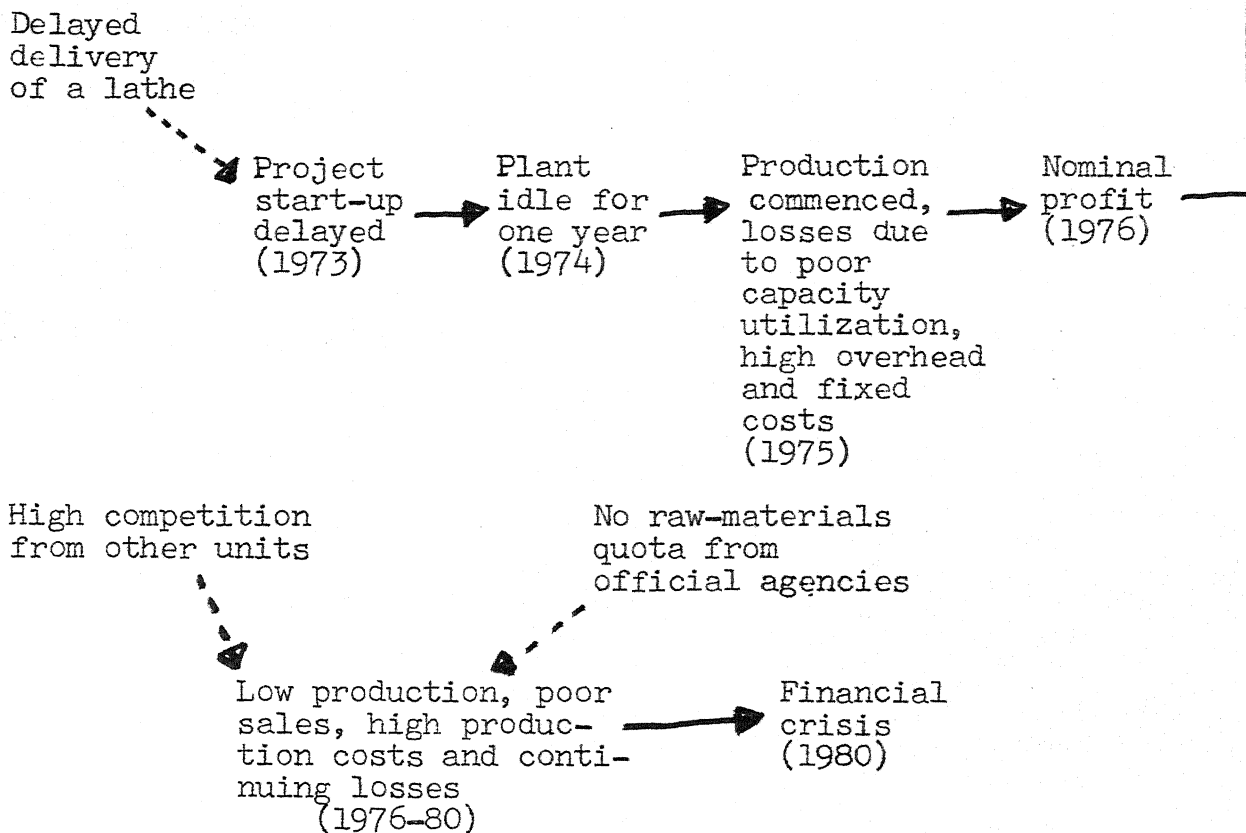


Fig. 4.5: The brief career history of Paxwell Tools and Engineering Enterprises.

#### 4.5.2 Regal Engineering Industry:

This unit was started up by an entrepreneur who had managed successfully another machine tool unit for a period of ten years.

##### (i) Project Commissioning:

The project report of this unit was prepared by the entrepreneur himself. In the project report, the working capital requirements were shown as low. The project appraisal section of KSFC sought explanation for showing 'marginal' working capital requirement. The entrepreneur informed that he would collect 30 per cent of the value of orders as an advance against the customer's booking of orders, which would take care of the unit's working funds requirements. Convinced by this, KSFC sanctioned the loan. All machinery and equipment were obtained as scheduled, except for a major lathe from HMT which was strike-bound during that period. However, the unit started production as scheduled. During the start-up period, the unit was placed in a very favourable condition, as the entrepreneur was already experienced in the same product-line and possessed sufficient commercial and trade experience. However, the entrepreneur failed to make the best use out of the foregoing assets. After performing relatively satisfactorily for the first two years, this unit plunged into a 'sick' state. The unit's production and profit records are shown in Table 4.6.

Table 4.6: Projected and Actual Figures of Production and Profit of Regal Engineering Industry.

Year	Production (Rs. in lakhs)		Profit (Rs. in lakhs)	
	Projected	Actual	Projected	Actual
1973-74	1.25	0.85	0.20	0.070
1974-75	1.50	1.25	0.30	0.075
1975-76	2.00	0.75	0.45	-0.110
1976-77	3.00	0.80	0.55	-0.250
1977-78	4.00	1.5	0.80	-0.30
1978-79	4.00	1.25	1.00	0.15

(ii) Role Performance in the Functional Areas:

(a) Financial Position:

Financial performance of the unit has been very poor. As a result of poor financial management, the unit, facing a serious financial crisis. In the year 1973-74 the unit achieved a profit of Rs. 7,000. In the next year, also it earned a profit of Rs. 7,500. However, from 1975-76 onward, it started accumulating financial losses. As pointed out earlier the unit did not provide for adequate working capital in the beginning. When the need for the same was felt after two years, the unit approached Karnataka Industrial Cooperative Bank (KICB) for a working capital loan of Rs. 40,000/-.

The need for the working capital arose as the customers were no longer prepared to pay 30 per cent advance money against the orders booked by them. But the unit could not succeed in getting the loan due to certain formalities.<sup>+</sup> Without the availability of the required working capital, the performance of the unit could not be improved and hence the unit continued to be in a sick state.

(b) Production:

Production suffered due to the lack of cooperation from the labour-force and the lack of proper supervision of production. Except for the first two years, the production has remained very low. This resulted in a marked rise in the units overhead and fixed costs of production. The factory was closed for six months when its workers went on a strike during the year 1974-75. Production supervision could not be maintained properly as the entrepreneur had to look after his two units himself and could not get a good production-supervisor.

(c) Acquisition of Raw Materials:

This unit did not face much problem regarding the acquisition of raw-materials needed by it. It possessed a quote for certain essential raw-materials and the rest was purchased in the open-market.

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+ See Chapter V for details.

(d) Marketing:

The unit when it started production was in a very favourable position as regards marketing. It already had a wide consumer net-work through its sister concern i.e., the another machine-tool unit managed by the entrepreneur. But the image of this unit was damaged due to delays in its delivery schedules and poor production quality. The customers were dissatisfied and the market standing of the unit suffered in consequence. However, the entrepreneur in an interview denied that marketing was a constraint at least for his finished products. He maintained that the lack of adequate working capital was the sole factor responsible for the unit's poor marketing record since more orders could not be accepted.

(e) Labour:

It has been pointed out how the quality and volume of production suffered due to the labour trouble which started when a worker was fired. The workers' union demanded that the expelled worker should be re-appointed. The refusal of the management to accept this demand provoked the workers to go on a strike. Thus the working of the unit came to a stand-still by the closure of the unit for six-months. This situation served to further worsen the firm's financial position. The actual number of workers employed by the unit is 14 against the projected figure of 16.

The over-all role performance of the unit along its various performance dimensions is very poor. Management functions are carried out ineffectively, mainly due to the entrepreneur's responsibility for managing his two units by himself.

Lack of organization, lack of proper financial planning, poor production supervision coupled with poor labour relations drove this unit into a financial crisis.

It also came to the knowledge of the investigator from an important staff member that the entrepreneur diverted from the unit's funds, a sum of at the rate of Rs. 80,000/- for lending to his brother. This amount he reportedly failed to recover.

When the unit was performing poorly, with a view to go for new products, the entrepreneur took-up and invested funds in new product development. Due to its weak financial position, the unit was however not able to carry out the production of the new product actively, although the new product development was successful at the prototype stage.

It is surprising to observe the performance of this unit. Despite the fact that the entrepreneur had trade experience, and knowledge in management, and technical back-ground, he failed to manage this unit properly.



The extent of sickness of the firm could have been considerably reduced if timely help were available to the entrepreneur from the financial institutions. This aspect is discussed in more detail in Chapter VI.

The unit's career history towards a situation of financial crisis may be represented as below:

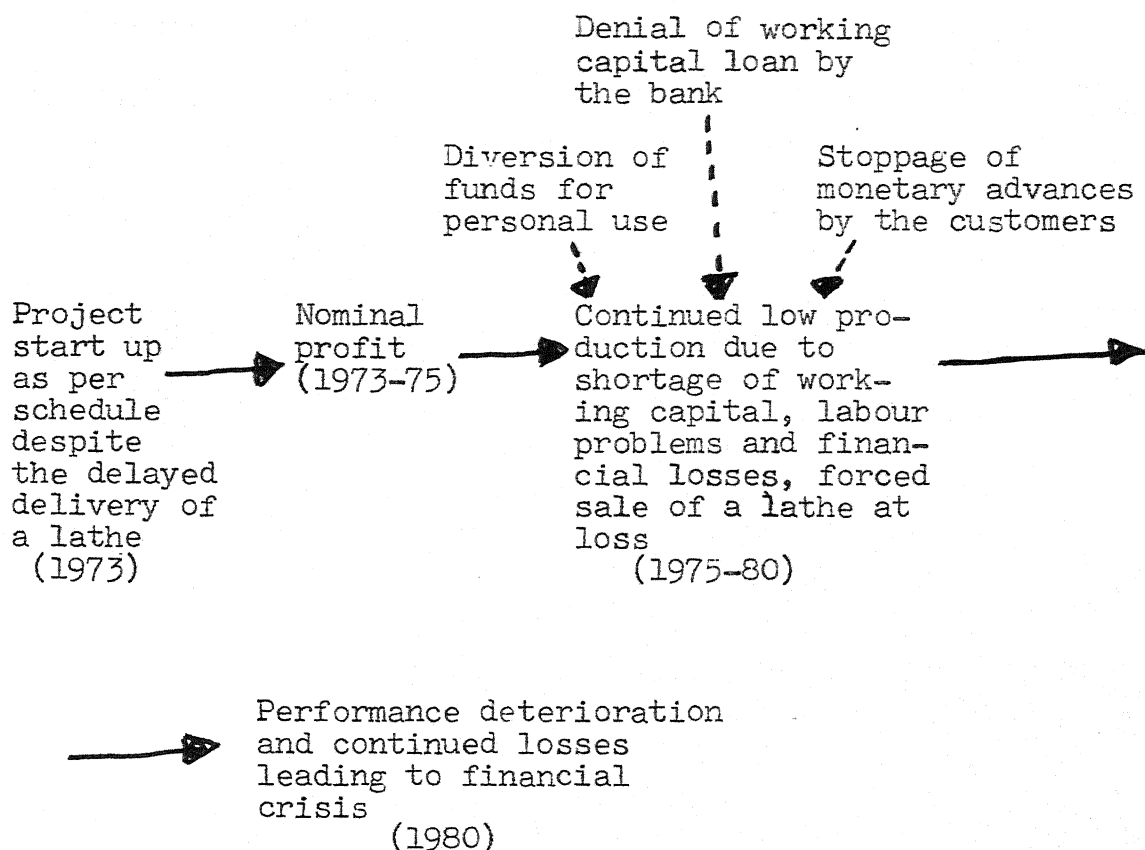


Fig. 4.6: The brief career history of Regal Engineering Industry.

#### 4.6 Healthy Units from Machine Tools Industry:

As mentioned in the previous chapter the two healthy units in the Machine Tools Industry are:

- (i) Sabeer Machine Tools (Pvt.) Ltd.
- (ii) Messrs Precision Tools

We discuss their role-performance one by one.

##### 4.6.1 Sabeer Machine Tools (Pvt.) Ltd.:

This is a healthy unit. Its role performance has been very satisfactory since 1977-78 onward as indicated by its performance indicators in Table 4.7. The project report of

Table 4.7: Projected and Actual Figures of Production and Profit of Sabeer Machine Tools (Pvt.)Ltd.

Year	Production (Rs.in lakhs)		Profit (Rs. in lakhs)	
	Projected	Actual	Projected	Actual
1973-74	4.00	3.00	1.00	-0.50
1974-75	5.00	4.00	1.5	-0.50 <sup>+</sup>
1975-76	5.50	4.50	1.5	-0.50 <sup>+</sup>
1976-77	6.00	5.50	1.80	-0.50 <sup>+</sup>
1977-78	6.50	6.00	2.00	2.00
1978-79	8.00	<u>2.50</u>	<u>2.50</u>	<u>2.40</u>

+ Carry over of the initial loss of 1973-74 to later years.

this unit was prepared by the entrepreneur himself. After having gained work-experience in the machine tools industry, he promoted the company along with his wife, mother and another woman. The responsibility of managing the company is on the entrepreneur who is the managing director of the company.

(i) Project Commissioning:

While commissioning the project the entrepreneur was reportedly asked to pay bribe to the officials concerned with releasing the loan amount and the issue of raw materials licence. However, this charge was denied by the executives of the service and financial organizations. According to the entrepreneur, he realized the practical difficulties he would face by refusing to pay the bribe and so decided to pay the bribe and got the loan released.

In the initial stages he had to put in a lot of effort. He was over-burdened and was handicapped by his lack of commercial and trade experience.

When the entrepreneur set-out to produce, he gave due importance to the following factors:

- (a) to build up the reputation of the company by adhering to strict quality control and,
- (b) to build up a committed and skilled labour force.

These two factors proved to be very useful and helped the unit, achieve good progress in the later years.

(ii) Role Performance in the Functional Areas:

(a) Financial Position:

At present the financial position of the unit is sound. The unit could start production in 1973-74 as planned, but incurred a financial loss of Rs. 50,000. This loss was carried over for next three years. However the production showed an increasing trend. It appears that the entrepreneur must have invested a lot of funds available from the increased volume of business, and preferred to show a balance sheet of financial loss. In the year 1977-78, the unit wiped out its previous financial losses and earned a profit of Rs. 2.00 lakhs. In 1978-79 it earned a profit of Rs. 2.40 lakhs. Thus the present financial position is very sound. It could also clear all of its loans. Thus has been mainly due to unit's progressive expanding volume of business and increasing profit margin. The margin of profit<sup>+</sup> of this unit has ranged from 20 per cent to 40 per cent depending upon the nature and type of work executed whereas in 'sick' machine tool units the profit margin has ranged from 15 percent to 25 percent only. Thus with a

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+ Profit margin varies due to the type of work that the units undertake. In Machine Tools Industry skilled and precision-work demands more time and quality control. Better products always gain the market. Hence it is possible to increase the profit-margin for such products, in the Machine Tools Industry.

higher rate of internal return, the unit has been able to clear off its term-loan borrowed from KSFC.

(b) Production:

The unit is working in full three shifts utilizing most of its installed capacity. Presently, the entrepreneur is working on the blue-prints for the expansion of his unit by adding more machines to cope with the increasing volume of business. Production function of the unit is smooth and well-planned. Hence the production delays and rejections are minimum.

(c) Acquisition of Raw Materials:

When the entrepreneur started production, due to his lack of commercial and trade experience he used to be taken advantage of by the local raw-material suppliers. After gaining some trade-experience he improved his performance in this respect. For the imported raw materials, the prices used to fluctuate widely. He made a trip to Germany to acquaint himself with the latest developments there and arrived at a price agreement with German suppliers of the raw-materials for a period of 5 years.

(d) Marketing:

The market for the products was developed with a lot of struggle and hardwork. The entrepreneur did experience

initial difficulties in trying to penetrate a competitive market. However, the fifty percent of the unit's production used to be sold to a single customer only in the beginning. Later the customers for the unit's products were diversified. It was pointed that in the Machine Tools Industry, the capacity to do certain specialised jobs and precision work only brings the orders to a new unit, such job and work capability were developed in this unit through the hardwork and investment policies of the entrepreneur.

(e) Labour Relations:

The labour-force of this unit is constituted of skilled and committed workers. This has enabled the unit to maintain its production with high quality. The entrepreneur could develop a harmonious labour relationship because of his concerted efforts and informal behaviour with the workers since the beginning of the unit. He cited many instances of how he could win the confidence of the workers by his sympathetic attitude towards their problems. The labour force of the unit is better paid as compared with Paxwell and Regal units. The harmonious labour-relations are evidenced by a very low labour turn-over in the unit. The unit due to its planned growth over years it has, created employment opportunities for 43 workers as against the projected figure of 17 workers only in its original project report.

To sum up, the comparison of this unit with the sick units reveals the critical role of management in shaping the growth of a small scale unit. The performance of the entrepreneur stands apart from the performance of the sick units. The unit's performance has been consistently good. It has achieved its projected figures of sales and the internal rate of return. In the initial stages the entrepreneur used to look after every function of the unit. When he realized that this would affect the management function of coordinating various activities, in the latter years he concentrated more on the overall coordination of the unit. During this period he once failed to pay a loan instalment due to KSFC. KSFC wrote him three to four reminders asking the entrepreneur to clear-off the outstanding instalments. Somehow, the entrepreneur neither could pay the instalments nor could he write any reply to KSFC as he was so much engrossed with the problems of the unit. Then KSFC thought that the entrepreneur is taking KSFC for a ride and issued a legal notice without actually visiting the unit. The entrepreneur had to employ a lawyer and it took sometime to settle the matter. This act of KSFC created a serious problem for the morale of the entrepreneur. Since then, the entrepreneur is reluctant to approach KSFC for loans for further expansion of his unit. This drastic action of KSFC towards the entrepreneur is against the norms of role-performance of KSFC as a development bank.

The important bright aspect of the entrepreneur's success is to learn from his past mistakes and gain the necessary commercial and trade experience. He never committed the same mistakes. In contrast, the entrepreneurs of the sick units failed to learn anything out of their past mistakes. In the first year of production when the entrepreneur received a lot of rejections of the products from the customers, he searched carefully to find where his fault lies. At last he found that most of the rejections were due to faulty heat-treatment which he used to get done from some other unit. To overcome this difficulty he added a heat-treatment unit to the factory. Though it was a risky investment initially, in the later years it has paid good dividends. This kind of calculated risk-taking is absent in the management roles of the entrepreneurs of the sick units.

The unit's brief career history towards its relatively profitable position may be represented as below:

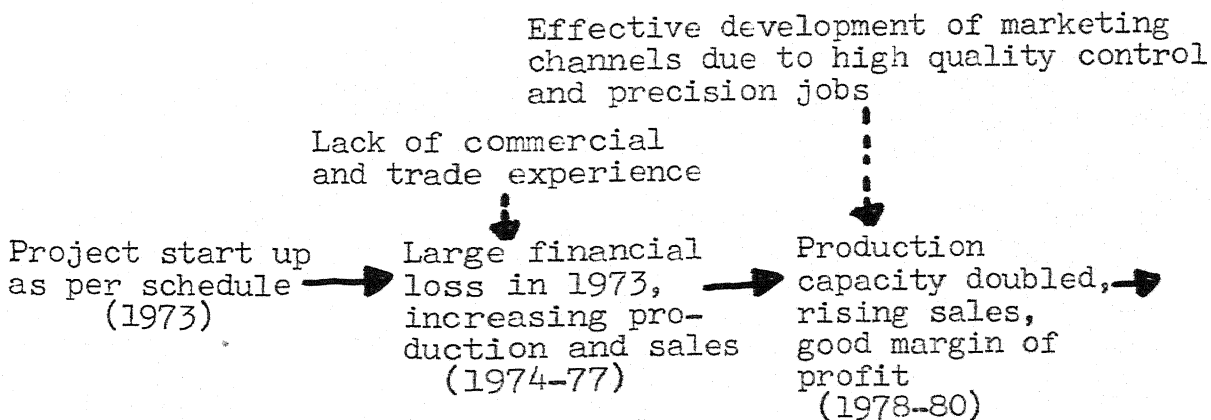


Fig. 4.7: The brief career history of Sabeer Machine Tools (Pvt.) Ltd.



#### 4.6.2 Messrs Precision Tools:

This is a healthy unit performing satisfactorily. The performance of the unit along the dimensions of production and profit is very impressive as seen in Table 4.8.

Table 4.8: Projected and Actual Figures of Production and Profit of M/S Precision Tools.

Year	Production (Rs. in lakhs)		Profit (Rs. in lakhs)	
	Projected	Actual	Projected	Actual
1973-74	1.50	1.21	0.30	0.18311
1974-75	3.00	2.50	0.60	0.35868
1975-76	4.00	3.21	0.85	0.55471
1976-77	4.50	4.6	1.25	1.00
1977-78	5.00	5.5	1.50	1.3041
1978-79	5.50	5.5	1.50	1.3562

The entrepreneur of this unit prepared the project report himself, after a proper market survey. He also established a prior marketing arrangement with an established marketing firm. This provided a sustained support for the unit's production function in the early stages and enabled it to acquire an edge over other machine tool units of our study.

From the very beginning the entrepreneur adopted a systematic pattern to develop the unit. The unit was provided with technical expertise and an efficient staff. Management functions were well defined and coordinated rigorously. The entrepreneur's work experience in the Machine Tools industry in USA and Canada proved quite helpful in both the technical and managerial aspects of the unit's operations.

The unit's performance has been consistently good. Production is carried on in full three shifts. The entrepreneur has big plans to expand the unit. New products and marketing channels have been identified and further ground-work is in progress.

From the beginning the entrepreneur attempted to build up the image of the unit in the market for the precision and quality of its products and timely schedule of their deliveries to customers.

(i) Project Commissioning:

Like the entrepreneur of Sabeer Machine Tools, this entrepreneur too faced problems during the commissioning of the project. But this entrepreneur solved those problems pragmatically. The unit has maintained a smooth and harmonious relationship with other social actors in its environment. This was due to the entrepreneur's frequent visits to the marketing agencies. His informal approach succeeded in gaining the

goodwill of the customers. Timely payments of loan instalments strengthened the trust in him by the financial institutions. Hosting of parties to the customers and the officials enabled the entrepreneur to build up good relations with the customers and official agencies.

(ii) Role Performance in the Functional Areas:

(a) Financial Position:

In contrast to the sick units, this unit has a sound financial position. We do not find here in this unit the utilization of working capital for other purposes. The unit achieved a profit of Rs. 18311 in the very first year of 1973-74 and has continued to earn profit progressively. This unit's profit margin ranges from 25 percent to 40 percent. The increasing working capital requirements are met by the unit's bank without much difficulty as the credit-worthiness of the unit is high. The unit maintains proper accounting system to keep track of its receipts, payments and cash-flows. In contrast, the sick units showed poor maintenance of their accounts.

(b) Production:

Production is carried out in full three shifts utilizing most of the available production capacity. The quality of the products is ensured by strict quality control. Production delays are avoided by systematic planning of production to keep up the delivery schedule.

(c) Acquisition of Raw Materials:

The unit is getting some portion of its raw-material requirements from the quota sanctioned to him. However, the supply is at times not only erratic but also inadequate and the unit has been forced to make alternative arrangements.

(d) Marketing:

Apart from the prior marketing tie-up with an established marketing agency, the unit has also developed its own marketing channels for its products. A sales engineer is incharge of the marketing function. The entrepreneur takes keen interest in marketing development. The entrepreneur keeps himself well-informed about the market position and trends. Its sales figures have been consistently rising in conformity with rising production and profit.

(e) Labour Relations:

The labour-force of the unit is skilled and well-paid. There is very low labour-turnover. Good labour relations are maintained by the entrepreneur by his informal and friendly approach to his workers.

The projected level of employment in the unit's project report envisaged a work-force of 15 persons. On account of the unit's continuing growth and development the current strength of the unit's work-force stands at 38 i.e., more than twice its projected level of employment.

To sum-up, the overall functioning and role performance of the unit is quite satisfactory. The unit's relationships with its customers, banks and other social actors in its environment are harmonious. However, the entrepreneur is not very happy about the quality of the services rendered by KSFC and other service organizations. To illustrate this, he cited an example of the inordinate delay on the part of KSFC in responding to one of his important communications.

The unit's brief career history towards its relatively sound financial position may be represented as below:

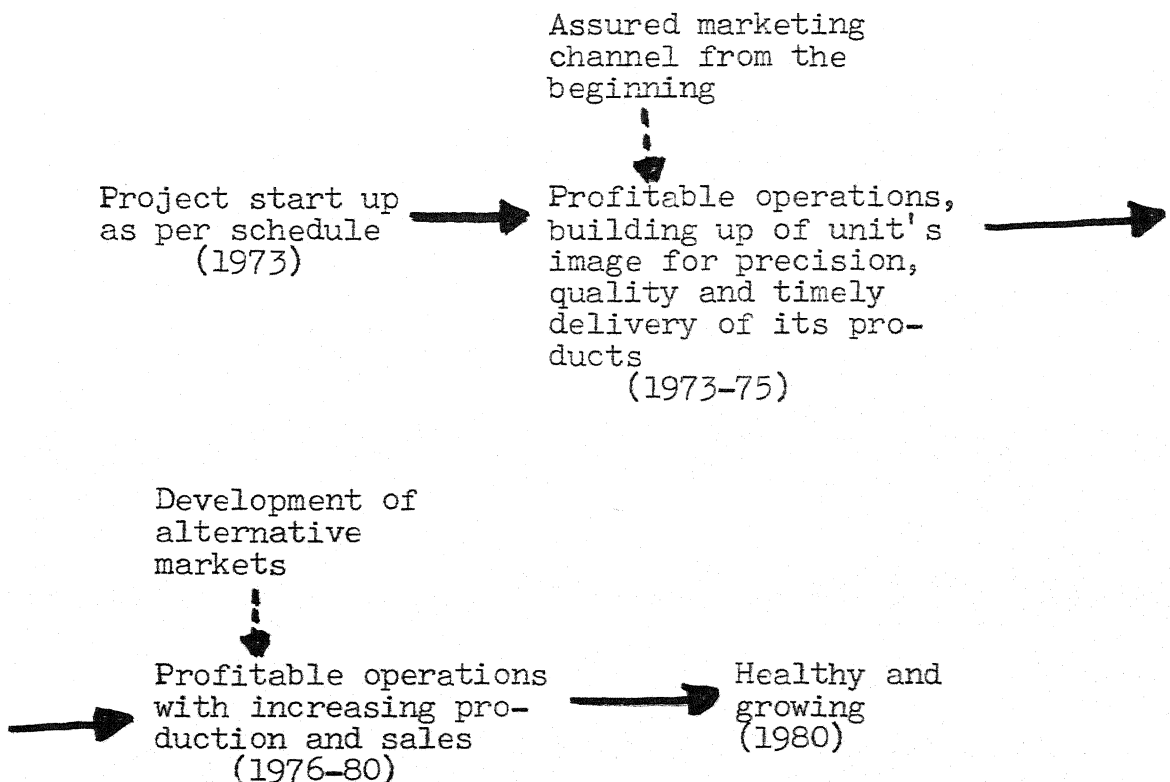


Fig. 4.8: The brief career history of M/S Precision Tools.

#### 4.7 Conclusion:

We have in this chapter seen how the eight small units have shown very dissimilar performances over the years. The role performance analysis was undertaken according to the norms of role performance of the small industrial units. These norms of role performance emanate from and are based on the functional areas of performance of the industrial systems. The norms of role performance accordingly are increasing, production, sales, profits, acquisition of raw materials, maintenance of harmonious labour relations and normal relations with environmental entities. The healthy units role performance analysis has shown that their role performance was by and large according to the foregoing norms of role performance. The sick unit's role performance analysis on the other hand has shown that their role performance was at wide variance with the above norms of their role performance. Further the analysis of the healthy and the sick units have brought out clearly the various causal factors (some of which are specific to each unit) underlying their differential role performance. The causal factors identified mainly are of two categories the internal and the external. They have been outlined contextually in the discussions of the individual units.

The role performance analysis of the healthy and the sick units thence enables us to draw certain inferences based on their comparative analysis.

In the next chapter, we undertake a comparative analysis of the role performances of the healthy and the sick units. This analysis is based on the themes of inferences indicated in the research design of our study.

## CHAPTER V

### A COMPARATIVE ANALYSIS OF THE ROLE PERFORMANCE OF THE HEALTHY AND SICK UNITS

In the preceding chapter we discussed and analysed the role performance of the 'sick' and 'healthy' units from electronics and machine tools industry. In this chapter we undertake a comparative analysis of their role performance in terms of the themes of inference of our research design. As per our research design, our themes of inference require a three way comparison of the 'sick' and 'healthy' units. For this purpose, we attempt to identify the common factors within the 'sick' and 'healthy' units among themselves according to the Mill's Method of Agreement. We then further identify the differentiating factors between the 'healthy' and 'sick' units according to the Mill's Method of Difference.

#### 5.1 A Comparison of the Sick Units from Electronics and Machine Tools Industry:

The sick units as identified earlier are:

1. Surya Electronics Laboratory
2. Techno Electronic Instruments
3. Regal Engineering Industry
4. Paxwell Tools and Engineering Enterprises



All the four 'sick' units are characterized by varying degrees of role performance failures. Based on the portrayal of their role performance in the last two chapters, the dimensions of role failure of the 'sick' units may be stated as below:

- (i) Delayed commissioning and start up of the project
- (ii) Lack of cohesion in the ownership structure
- (iii) Inability to carryout the production at an economic level i.e., production function failure
- (iv) Inability to pay adequate wages to their workers and maintain good labour relations i.e., labour relations failure
- (v) Inability to sustain and increase sales volume i.e., marketing failure
- (vi) Inability to repay the loan instalments to the financial institutions i.e., failure of financial credibility
- (vii) Failure to achieve harmonious role relations with the social entities in their environment
- (viii) Failure to achieve the intended social objectives of wealth and employment generation.

Instead of being the net creators of internal economic surplus, the 'sick' units have become net consumers of economic resources i.e., they have consumed their capital assets to varying degrees. These dimensions of their role performance

in their environment i.e., Karnataka State Financial Corporation, Electronics Commission and Hindustan Machine Tools. This dimension of the unit's role failure hence emerges as involuntary.

(ii) Lack of Cohesion in the Ownership Structure:

Many studies have brought out the bearing of the constitution of a firm on its performance. In our study out of the four sick units except for Surya Electronics Laboratory, all the remaining three are partnership firms. The unit Techno Electronic Instruments displayed a dismal performance after a promising beginning. Its performance deterioration is traceable to the dissensions amongst its partners. However, the two other partnership units Regal Engineering Industry and Paxwell Tools and Engineering Enterprises did not face the problem of dissensions amongst their partners. In the case of the unit Regal Engineering Industry, the partners are family members, while in the unit Paxwell Tools and Engineering Enterprises of the two partners, one is a sleeping partner.

This dimension of role failure though voluntary is not a common one. It emerges as an individual characteristic of a specific unit only.

(iii) Production Function Failure:

All the four units are characterized by production function failure i.e., their failure to carry out the production

function at an economic level. Due to their continued low utilization of their installed capacities, the four sick units are faced with the problem of increasing overhead and fixed production costs. The increased production costs dilute their capacity to compete with the other units. This has resulted in their loss of market share. Though the units, Surya Electronics Laboratory and Regal Engineering Industry want to increase their production level they are not in a position to do so because of their working capital constraints.

Another aspect of the production function failure is the lack of proper production supervision. Poor production supervision, poor manufacturing skills and raw materials defects have resulted in the poor quality of production as indicated by the relatively high percentage of rejections by the customers. This has also contributed to high production cost besides loss of customer loyalty.

This dimension of role failure is a common and voluntary one.

(iv) Labour Relations Failure:

Regal Engineering Industry, and Paxwell Tools and Engineering Enterprises, that is both the sick units from machine tools industry were seriously affected by disturbed labour relations. They faced the problem of labour absenteeism and high labour turnover. This situation developed due to the

differences over wages and the unit's failure to develop good labour relations from the beginning. Techno Electronic Instruments also faced the problem of labour turnover. It could not retain the services of its skilled workers due to its poor financial position. The Surya Electronics Laboratory did not face any apparent problem of disturbed labour relations. However, due to the units shrinking volume of production, its workforce also declined in a corresponding manner.

This dimension of role failure though involuntary and common to all the sick units is seen to be a consequential rather than a causal factor. The weakening financial position of the sick firms reduced their capability to pay timely and remunerative wages to their workers. This resulted in the problem of high labour turnover and the inability of the sick units to attract and retain competent and skilled workers.

(v) Marketing Function Failure:

All the sick units except Techno Electronic Instrument started production without making any prior marketing arrangements. Neither could they manage to develop and stabilize whatever market share they could get. Lack of experienced sales personnel and access to marketing channels also contributed to this situation. The environmental social entities, i.e.,

KSFC and KEONICS, however could have provided marketing assistance and mitigated the unit's marketing failure. In the case of Surya Electronics Laboratory the failure of Karnataka State Electronics Development Corporation to provide marketing assistance to the unit was a serious set-back to the unit's efforts to regain its health.

This dimension of the role performance failure of the units is largely voluntary. To have entered into production without establishing proper marketing channels for the sale of their products represents a serious lack of managerial acumen. The subsequent failure of the units to consolidate their market share worsened their market position. The failures of production and marketing functions are in fact seen to be closely coupled together as cause and consequence. Organizations like Karnataka State Financial Corporation and Karnataka State Electronics Development Corporation could have helped these units by providing marketing assistance to them. But such help was not forthcoming. The long delayed payments by the customers for the products supplied to them was another factor in weakening the unit's viability.

(vi) Financial Credibility Failure:

Due to the configuration of internal and external factors discussed in the last two chapters, the sick units gradually lost their credibility with their customers, financial

institutions and suppliers. Once the units failed to keep up the payments of their loan instalments, the attitude of the financial institutions became stiff, thereby aggravating their problem of securing financial accommodation from these bodies. The weak financial position of the unit disrupted their delivery schedules to the customers thereby eroding their credibility with their customers. Similarly the failure to pay their suppliers in time led to the units' loss of credit rating as purchasers thereby making it more difficult for them to obtain the needed production inputs economically.

This dimension of the unit's role failure is a consequence of their production and marketing functions failures. It also underlies their failure to achieve harmonious role relations with the financial organizations like KSFE and banks.

(vii) Failure to Achieve Harmonious Role Relations with the Environmental Entities:

The sick units encountered many problems when they sought help and assistance from the service and financial organizations. They experienced inordinate delays, apathy and denial of help from the service and financial organizations. Such a situation resulted in a further worsening of their role performance, in different functional areas. In some cases the sickness developed mainly due to the role failure of the environmental social entities. We have already shown in

Chapter IV how the environmental social actors failed to come up to the expectations of the entrepreneurs of the sick units. The investigator took a lot of pain in eliciting information from the entrepreneurs of the sick units. They were very demoralised and reluctant to give information on the ground that the present study would be of no use to them. Many entrepreneurs were desperate and repented for having started their units at all.

(viii) Failure to Achieve the Intended Social Objectives of Wealth and Employment Generation:

Differential dimensions of their role failures has led the sick units to a situation of non-fulfilment of their intended social objectives like providing projected employment opportunities, triggering off other productive economic activities and making an overall contribution to the larger economic system. One of the most important social objectives behind the promotion of small scale units by the government is, for their large potential for employment generation. When a unit is assisted by the government bodies, it is estimated that the unit would reach its projected levels of employment soon after the project commissioning of the unit. A further expectation in this context is that the unit concerned would be able to generate the additional employment opportunities as it moves toward growth and development.

In the case of the sick units studied by us, the objective is far from being realized. These units have failed to reach their projected levels of employment. The size of present strengths of their work force is well below their projected levels of employment as envisaged originally. The following table brings out this aspect clearly.

Table 5.1: Actual and Projected Levels of Employment in the sick units.

Unit	Projected level of employment numbers of workers and staff	Actual level of employment (1978-79) numbers of workers and staff
(i) Surya Electronic Lab.	17	10
(ii) Techno Electronic Instruments	20	12
(iii) Regal Engineering Industry	16	14
(iv) Paxwell Tools and Engineering Enterprises	20	15

As a matter the projected levels of employment represented a minimum base line. Employment levels were expected to increase after the stabilization of the unit's production and sales. This aspect is clearly demonstrated in the case of the healthy units as seen in table 5.3 later. Such a state of affairs represents a serious dimension of role failure on the part of the sick units. It attests the failure of the sick units to meet their social responsibility.



In addition to the foregoing dimensions of role failures, the following two causal factors of the sick units may also be noted.

(i) Weak Organizational Base:

All the sick units are characterized by a weak organizational base. Lack of proper personnel to deal with the different functional areas of organization has affected performance of the sick units. Unless their organizational base is strengthened, the sick units cannot improve their performance. The entrepreneurs of the sick units are however reluctant to strengthen the staff because of their financial and market constraints. Thus the sick units are seen to be caught in a vicious circle of weak organizational base and poor financial position.

(ii) Absence of Professional Consultations:

In all the four sick units the entrepreneurs <sup>have</sup> attempted to solve their complex technical problems themselves without consulting the concerned professionals and experts. These ad hoc and paltry solutions to complex problems often served only to aggravate the problems further. Both the above aspects may be characterized together as internal management failure of the units. In the Table 5.2 we present the general features of all the sick units from electronic and machine tools industries.

Table 5.2: An overall comparison of the role performance failures of the sick units.

Sick Unit	Delayed commissioning of the project	Lack of cohesion in the ownership structure	Production Function Failure	Labour Relations Failure	Marketing Function Failure	Failure of Financial credibility	Role relations with social entities in the environment	Internal management failure	Social objectives failure	Remarks on major causal factors
Surya Electronics Laboratory	*	+	-	-	-	-	-	-	-	1. Delayed commissioning of project due to non availability of imported raw material was a major causal factor 2. Non availability of working capital and marketing assistance.
Techno Electronic Instruments	+	**	-	+	+	-	-	-	-	Disensions amongst the partners were the major causal factor in the unit.
Regal Engineering Industry	(-)	+	-	-	-	-	**	-	-	1. One person looks after various things. 2. Non-availability of working capital 3. Marketing failure
Paxwell Tools and Engg. Enterprise	-	+	-	-	**	-	-	-	-	1. Failure of marketing functions 2. One person looks after various things

+ = Initially positive normal situation that worsened later,

\*\* = Major causal dimension of role failure,

+ = Positive normal situation

- = Adverse situation

(-) = Minor problem

The tabular comparison reveals considerable similarity in the role failure profiles of the sick units. However, most of the dimensions of role failure are consequential. They are the results of the progressively deteriorating situations of the unit's financial viability. The major causal factors underlying the units performance deterioration are specific to each unit. They include both the voluntary and involuntary aspects of the role performance failures.

(1) The major causal factor underlying the role failure of Surya Electronics was involuntary. The project commissioning of this unit could not get underway due to the inordinate delays associated with its getting a supply of an imported item of raw material constituting a mere 10 percent of its raw material requirements. For a period of two years the unit could not begin its proper production and was financially crippled as a result of this situation.

(2) Techno Electronic Instruments role failure was in a sense voluntary. This unit was headed for success from the very beginning because of its sound arrangements for productions, quality control and assured marketing outlet. This unit however came to grief because of dissensions amongst its partners. The unit's work was paralysed as a consequence and it entered a spiralling course of decay and debilitation.

are, carried effectively due to the exclusive responsibilities and authority vested in the entrepreneur acting as the managing director. The managing director, is ably assisted by other directors of the company.

(iii) Non-Failure of the Production Function:

Even though the healthy units incurred financial losses for one or two years, their production never stopped or showed a declining trend. The healthy units especially in the machine tools industry were able to utilize their installed capacity to a fuller extent than the healthy units in electronics industry. The Sai Electronics Private Ltd. could not achieve higher level of production because of market constraints. The healthy units in comparison to the sick units were able to maintain low overhead costs due to scale of production, raw materials purchases, efficient utilization of men, machines and materials, better supervision and quality control. This helped them to compete successfully in the market. Thus effective and efficient performance of the production function enabled the healthy units to expand their market share and establish a reputation for their products.

The healthy units by avoiding delays in project start-up. succeeded in starting their production activity as per the schedule. The strong marketing arrangements made beforehand enabled them to sustain and increase their production activity.

(iv) Effective Management of Labour Relations:

Harmonious labour relations are the common characteristics of all the healthy units. Their labour turnover is very low. The degree of absenteeism amongst the workers is minimal. The healthy units maintain a batch of competent, committed and skilled workers whom they have recruited, trained and retained from the beginning. This has been made possible due to the concerted efforts of the entrepreneurs to build up their work forces by paying the workers good wages and maintaining cordial relations with them. The effective management of labour relations has resulted in undisrupted production, low rejections, and high production quality.

(v) Effective Marketing Function:

Except Sabeer Machine Tools all the remaining three healthy units started ~~then~~<sup>ix</sup> production with prior marketing arrangements. This reduced their initial hardships of finding marketing channels. The Sabeer Machine Tools (Pvt.) Ltd. though faced some initial problems in the marketing of its products gradually developed a good market base due to the quality of its products and concerted efforts. The marketing function in all the healthy units is looked after by separate sales and service personnel.

(vi) Maintenance of Financial Credibility:

The satisfactory performance of the healthy units enabled them to maintain their credibility with their financial institutions, customers and other environmental social actors. By effective maintenance of their production function the healthy units could achieve low overhead costs, high production quality and timely deliveries of products to customers. This resulted in a higher profit margin and led the healthy units to a sound financial base. However, within the healthy units themselves, the electronics units could not achieve as high a profit margin as those of the healthy units in the machine tool industry. Their sound financial position helped the healthy units to reinforce their credibility with the social actors in their environment and they could get their production inputs without much delays and difficulties. The healthy units have been making payments of their loan instalments as per payment schedule. Sabeer Machine Tools (Pvt.) Ltd. due to its sound financial base has been able to clear all its outstanding term loan to Karnataka State Financial Corporation.

(vii) Maintenance of Working Relations with Other Social Entities in their Environment:

The healthy units maintained good working relations with their environmental entities. The entrepreneurs of the

healthy units often visited their customers, suppliers, financial and service organizations to keep up good relations. The entrepreneur of Sabeer Machine Tools even made a trip abroad to negotiate raw materials supply and price agreement. However, the help rendered by the service and financial organizations were not satisfactory according to the entrepreneurs of the healthy units. Had the required help been provided the growth of the healthy units would have been faster.

(viii) Fulfilment of the Social Objectives of Surplus and Employment Generation:

The successful performance of the healthy units in their functional areas has led them to a situation of fulfilment of their social objectives like generating projected volume of employment opportunities, triggering off other productive economic activities and making an overall contribution to the larger economic system.

In the case of healthy units, we see that they have been able to fulfil their social objective of employment generation. Not only did they reach their projected levels of employment as envisaged but also have succeeded in creating additional employment opportunities as a result of their further growth and development.

The following table brings out this aspect clearly.

Table 5.3: Actual and Projected Levels of Employment in the Healthy Units.

Unit	Projected level of Employment (No. of workers and staff)	Actual level of Employment (1978-79) (No. of workers and staff)
(i) Sai Electronics (Pvt.) Ltd.	20	25
(ii) Electronic Equipment (Pvt.) Ltd.	20	41
(iii) Sabeer Machine Tools (Pvt.) Ltd.	17	43
(iv) M/S Precision Tools	15	38

Such a state of affairs represent an important dimension of successful role performance on the part of the healthy units. It attests to the successful performance of the healthy unit to meet their social responsibility.

In addition to the foregoing dimensions of successful role performance, the following internal factors of the healthy units may also be noted.

(i) Adequate and Efficient Organizational Base:

All the healthy units except Sai Electronics (Pvt.) Ltd. are staffed with adequate and efficient personnel. The sound personnel base has helped the healthy units to carry out their activities in their functional areas smoothly. The



office management, maintenance of records, accounts, and correspondence are carried out in a satisfactory manner.

(ii) Adequate Professional Consultations:

Whenever the entrepreneurs of the healthy units faced some major technical problems they consulted the experts and professionals for advice. This enabled them to solve their various technical and managerial problem in an effective manner.

In Table 5.4 we have presented synoptically the general features of the healthy units from machine tools and Electronics industries. The tabular comparison reveals considerable similarity in the role performance profiles of the healthy units. The major causal factors underlying the successful role performance include both internal and external factors. The project's commissioning of healthy units was according to schedule. Hence there was no financial pressure due to project delays. Though in the initial years they incurred small financial losses, their production never dwindled. It continued to show an increasing trend because of their sound marketing arrangements. Thus they managed to avoid many initial problems. The internal management of the healthy units was comparatively effective and efficient. It steered the unit's performance toward financial viability.

Table 5.4: An overall comparison of the role performance of the healthy units.

Healthy unit	Startup of the project as per schedule	Cohesion of ownership structure	Production Function	Labour Relations	Marketing Function	Financial credibility	Relations with environ mental entity	Internal management	Achievement of social objectives	Remarks on major causal factors
Sai Electronics (Pvt.) Ltd.	+	+	+	+	(-) * *	+	+	+	+	1. No delays in project commissioning. 2. Prior marketing outlets
Electronic Equipments (Pvt.) Ltd.	+	+	+	+	+ * *	+	+	+	+	1. No delays in project start-up. 2. Sound organization. 3. Prior marketing outlets.
Sabeer Machine Tools (Pvt.) Ltd.	+	+	+	+	+ * *	+	+	+	+	1. No delays in project startup. 2. Strong marketing share developed due to hard efforts. 3. Sound labour relations and organizational base.
M/S Precision Tools	+	+	+	+	+ * *	+	+	+	+	1. No delay in project startup. 2. Strong marketing channels. 3. Efficient management of production function

+ \* = Major causal dimension of effective role performance.

After analyzing the comparative role performance of the healthy units, we now turn to the comparison of healthy and sick units to arrive at factors of differentiation between the two sets of healthy and sick units from electronic and machine tools industries.

### 5.3 A Comparison of the Healthy and the Sick Units:

The comparison of healthy and sick units amongst themselves was based on the Mill's Method of Agreement. The sick units were seen to share a set of characteristics associated with their sick status. The major causal factors underlying the units sickness were however specific to each unit. The healthy units were also similarly seen to share a set of characteristics. The major causal factors underlying their health were their well-conceived marketing and production functions. In what follows we attempt an overall comparison of the healthy and the sick units based on the Mill's Method of Difference.

### Comparative Analysis of the Healthy and Sick Units:

Though all the eight industrial units shared similar organizational characteristics and their respective entrepreneurs also showed certain basic entrepreneurial attributes. The performance of the units has diverged widely. This divergence has been due to a number of internal and external factors specific to each unit.

Unless external assistance in the form of the provision for additional funds, financial accommodation, marketing assistance, writing off the penal and accumulated interests are made available to these units, they would continue to be sick and may end up as closed.

In contrast to the sick units, the healthy units were not adversely affected by such external factors. Their project s commissioning was according to schedule. Though in the initial years, the healthy units incurred small financial losses, their production never decreased. It continued to show an increasing trend. The reasons related to their small financial losses were due to their initial lack of trade and commercial experience. But their sound marketing arrangements finalized in advance of their commencement of production helped the healthy units to maintain their production activity and overcome their initial problems. The sick units on the other hand were materially affected due to the uncertainties of their market position. The internal management of the healthy units was comparatively effective and efficient than those of the sick units. However, the entrepreneurs of both the sick and healthy units experienced similar kinds of official attitudes and treatment.

Effective role performance of the social entities in the environment of the sick units could have potentially

prevented the role performance of the sick enterprises from worsening and thus their sickness could have been averted. In the case of the healthy units the helpful and positive role of the social entities in their environment could have improved their performance further. The healthy units could have become healthier and achieved a faster rate of growth.

#### 5.4 Concluding Remarks:

The sociological nature of the problem of sickness of small industrial units hence emerges as one of the interaction between the external and internal factors in the affected enterprises. These external and internal factors are seen to be the concomitant aspects of the role failures of the environmental social entities and the sick units. The role failures of the social actors involved in the problem have been aggravated instead of preventing it partly or wholly by their patterned role interaction. The role failure of the sick units could have been mitigated and prevented if the environmental social actors had not created the conditions of inordinate delays in the beginning or helped them later when these units needed their help to overcome their sickness.

In the next chapter we examine the role failure of these social actors in the environment of the industrial units.

## CHAPTER VI

### ANALYSIS OF THE ROLE FAILURE OF THE SERVICE AND FINANCIAL ORGANIZATIONS

Small scale units as social entities engage in role interaction with other social actors i.e., organizations in their environment. The foremost amongst them are the governmental service and financial organizations. These organizations are meant to provide help, advice and resources to the small scale units in terms of money, information, raw materials, technical know-how and marketing assistance. The norm of role performance of the officially established service and financial organizations is then to promote and sustain the growth of small scale units for fulfilling the socio-economic objectives of the national development.

The health or the sickness of the small scale units is hence to a great extent also dependent on the adequacy of role performance of these social entities operating in the environment of the small units.

This chapter outlines the nature of and the reasons for the role failures of the service and financial organizations and how such a role failure on their part has engendered sickness

in the small units on the one hand and retarded their growth on the other.

Since 1950 there has been a continuing effort on the part of the central and state governments to promote the growth of small scale industry. As a basic part of this effort a number of organizations have been set-up for the promotion of small industry.\*

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\* The formal organizations for assisting the small scale industry at the national level are seen to fall under the categories as follows:

(1) Central Government assisted organizations:

- (i) Small Scale Industries Board
- (ii) Central Small Industries Organization (CSIO)
  - (a) Development Commissioner Small Scale Industries (DCSSI)
  - (b) Small Industries Service Institute (SISI)
- (iii) Commissioner for Industrial Cooperatives (CIC)
- (iv) Rural Industries Planning Committee (RIPC)

(2) Autonomous Institutions:

- (i) National Small Industries Corporation (NSIC)
- (ii) The Credit Guarantee Corporation (CGCI)

(3) Private Associations:

- (i) Federation of Association of Small Industries (FASSI)
- (ii) National Alliance of Young Entrepreneurs (NAYE)

### 6.1 The Environment of the Small Scale Units:

To promote small scale industry in Karnataka, the State Government has also created a set of organizations. Besides these organizations, many autonomous organizations and private associations also provide various types of assistance to small scale units in Karnataka.

The formal organizations created for the promotion of small scale industry in Karnataka are listed as below.

- (a) The State Government Assisted organizations:
  - (i) State Small Scale Industries Board.
  - (ii) Directorate of Industries and Commerce.
  - (iii) District Industries Centres.
- (b) Autonomous Organizations:
  - (i) Technical Consultancy Service Organization (TECSOK)
  - (ii) Karnataka Industrial Areas Development Board (KIADB)
  - (iii) Karnataka State Financial Corporation Ltd. (KSFC)
  - (iv) Karnataka State Industrial Investment and Development Corporation Ltd. (KSIIDC)
  - (v) Karnataka Small Industries Development Corporation Ltd. (KSIDC)
  - (vi) Karnataka State Electronics Development Corporation Ltd. (KEONICS)
  - (vii) Karnataka Industrial Co-operative Bank Ltd. (KICB)
  - (viii) Mysore Sales International Ltd. (MSIL)
  - (ix) All Nationalized Banks



(c) Private Associations:

- (i) Karnataka Small Scales Industries Association  
(KSSIA)
- (ii) Karnataka Small Industries Revival Association  
(KSSIRA)

Fig. 6.1 gives a synoptic representation of the role of the above formal organizations for the promotion of small scale industries in Karnataka.

Of the various official organizations, those concerned with the small units studied in the present work are as follows:

- (i) Karnataka State Financial Corporation Ltd. (KSFC)
- (ii) Karnataka State Electronics Development Corporation Ltd. (KEONICS)
- (iii) Karnataka Industrial Cooperative Bank Ltd. (KICB) and
- (iv) State Bank of India

In what follows we first briefly outline the reciprocity of role expectations between the assisted units and the concerned government organizations and later discuss the role failures of these organizations one by one.

## 6.2 Reciprocity of Role Expectations:

Our discussion of the role failure of the service and financial organizations is primarily concerned with the above

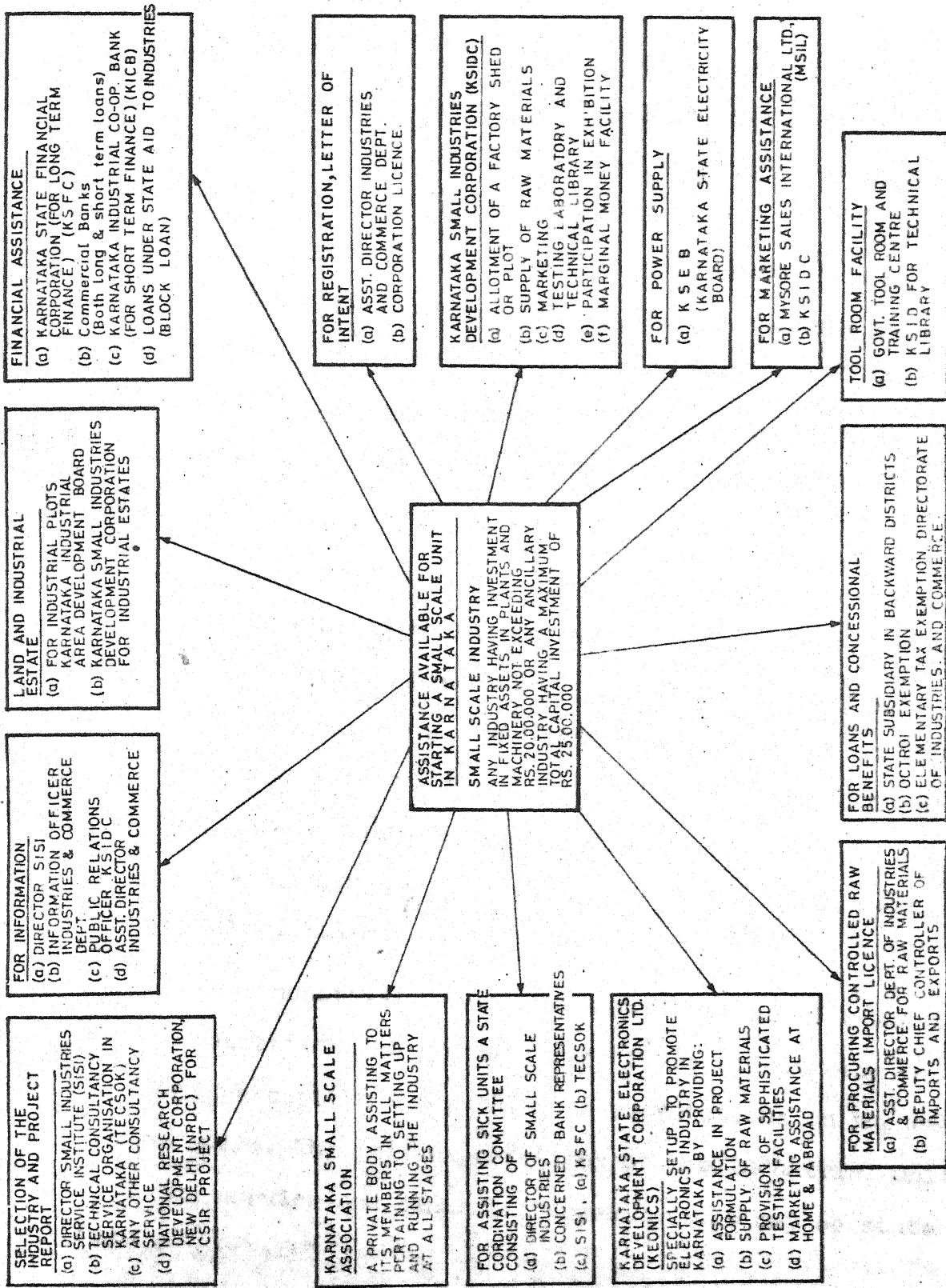


FIG. 6-1 INSTITUTIONAL SET UP DESIGNATED FOR GROWTH OF SMALL SCALE INDUSTRIES IN KARNATAKA

four organizations. The role of some other organizations like, Electronics Commission, New Delhi, Small Scale Industries Service Institute, Technical Consultancy Service Organizations have also been briefly discussed as and when required in our analysis. The role relationships between the small scale units and the service and financial organizations may be on the basis of their respective reciprocity of role expectations. The role expectations of service and financial organizations from the assisted industrial units may be stated as follows:

- (i) Timely repayment of loan instalments.
- (ii) Compliance with the prescribed rules and formalities
- (iii) To maintain close liaison by furnishing periodic information regarding the units' performance and problems
- (iv) Timely perception and appreciation by the entrepreneurs of their units' problems
- (v) Timely approach for help based on compliance with the formal rules

The industrial units also expect the service and financial organizations to perform their roles effectively in terms of their perception i.e., the role expectations on the part of the units. The role expectations of the industrial units from the service and financial organizations may be stated as below:

units during the period of the loan repayment. As per our observations most units do not comply with these requirements. KSFC has also shown leniency in this regard. Periodic progress reports enable KSFC to know about the performance of the assisted units when they are in the red. We have pointed out in Chapter III and IV as to how the problem of sickness emerged in some of the units. We have also tried to show how these problems could have been mitigated if KSFC had played its helping role in a timely and effective manner. KSFC maintains a sick unit cell to deal with the sick units.

Sick Unit Cell:

This section of KSFC was created recently (1978) to look into the problems of sick units and to assist them. The officer incharge of this cell informed the investigator that a clear-cut policy and programme was yet to be formulated to deal with the problem of sick units. The sick unit cell is supposed to keep a close liaison with the state level committee for the reliabilitation of sick and closed units in Karnataka. Joint Director of the Dept. of Industries and Commerce is the convener of the state level committee. The other members of the committee are the representatives of Small Industries Service Institute, KSFC, Commercial Banks and Technical Consultancy Service Organization.

The entrepreneurs of the sick units in order to seek help are required to approach this committee with all the relevent details filled in a proforma. KSFC also sends the list of sick units to this committee. The committee then forwards the proformas of the sick units to SISI for indepth studies and recommendations for their survival. This has however become a very time consuming process. SISI especially takes a long time to prepare its recommendation reports. For example,

- (a) In one case KSFC forwarded a sick units case to SISI on Sept, 1977. KSFC received the report from SISI as late as on July, 1979, and in yet another case,
- (b) KSFC forwarded a sick unit's case to SISI on 23rd March, 1979. KSFC received the report as late as on 24th January 1980.<sup>1</sup>

In the first case the entrepreneur was so much fed-up with the delay that he did not turn up to KSFC when the unit's report for rehabilitation was ready. This aspect of the KSFC's role failure has been engendered by the role failure of another social entity, i.e., SISI and is not due to its own volition.

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1. Personal inquiry notes.

Another dimension of role failure of KSFC is the inordinate delay in correspondence with the assisted small scale units. To illustrate this we may cite two examples as follows:

(i) M/S Precision Tools wrote a letter to KSFC seeking its permission to replace an existing lathe with a high capacity lathe. KSFC took nearly five months to grant the permission to the unit to replace the lathe which was a simple matter.

(ii) In the case of Regal Engineering Industry the unit needed some additional working capital. Karnataka State Industrial Cooperative Bank Ltd. was ready to offer the needed working capital to the unit. However, it demanded a no-objection letter from KSFC, since the machinery was pledged to KSFC. Due to KSFC's inordinate delay in issuing a no-objection letter to the unit, the unit could not get the loan from KICB due to certain restrictions imposed on KICB by Reserve Bank of India in the mean while.

Once the loan is sanctioned, the officials of KSFC think that their job is over. They worry only if the assisted units fail to repay their loan instalments. Without actually visiting the unit, and getting a first hand information about an unit's existing situation, KSFC swings into action. This is a general view on KSFC by the entrepreneurs of our study. To

illustrate this we cite the case of Sabeer Machine Tools. In the case of Sabeer Machine Tools, a hasty decision on the part of KSFC to issue a legal notice damaged the morale of the entrepreneur. The entrepreneur of Sabeer Machine Tools was very critical of this incident and does not want to approach KSFC again for the expansion of his unit because of his earlier bitter experience.

The Chairman of Small Industries Revival Association (KSSIRA) in an interview with the investigator pointed out the lethargy and red-tapism in the functioning of KSFC. He also cited many examples to illustrate his evaluation.

The entrepreneurs of the sick units of our study expressed the view that KSFC is unsympathetic towards understanding their difficulties. KSFC was alleged to take hard and unrealistic attitude towards the sick and weak units which further aggravated the problems of the sick units.

To this criticism the KSFC officials pointed out that they adopt special treatment towards sick and problematic units, when they are convinced about the genuineness of the problems faced by the units. They further pointed out the following concessions given by KSFC to the sick units:

- (1) the rescheduling of the interest on the principal amount.

important. The corporation assists the entrepreneurs in setting up industries or diversify or modernize the existing ones through:

- (i) Term loans both in rupee and foreign currency, and
- (ii) Soft loans to meet a portion of the promoters' contribution in small projects.

KSFC as a development bank is expected to do something more than the mere provision of capital. Over the years a wider role has been envisaged for KSFC.

For effective fulfilment of role obligations in a role relationship, the reciprocity of role expectations is very important. If the reciprocity of role expectations is lacking then it contributes to the malfunctioning of the role relationship and interaction between the social actors. It may lead to a series of cascading set of role failures in so far as the role failure of one social actor/collectivity may be transmitted over a network of role relationships to other social actors/collectivities.

The units assisted by KSFC are expected to comply with certain obligatory requirements like providing half yearly and annual progress reports, and annual balance sheet etc.<sup>1</sup> These are meant to facilitate KSFC's monitoring of the assisted

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1. Assistance to Industry: Karnataka State Financial Corporation handbook provided along with the loan applications.



of the units more closely. This view is shared both by KSFC and the entrepreneurs. To meet this lacuna, some State Financial Corporations have started offering working capital loan along with the term loans. KSFC is also now providing working capital for the small units' projects.

The reasons for the ineffective role performance of KSFC may be seen to be related to following aspects:

(i) Perceptions and Attitudes of the KSFC Officials i.e., their own Interpretations of their Duties:

The entrepreneurs of both the sick and healthy units of our study expressed the view that KSFC officials fail to understand and appreciate the difficulties faced by them. This is mainly due to the lack of proper training and orientation of the officials. To enable the officials to perform their duties more effectively, KSFC is deputing its various staff members for training in financial and management institutes. This is being done in a phased manner.

(ii) Resource Limitations:

Many of the grievances of the sick units relate to the lessening of their financial burden by writing off the penal interest and a rescheduling of the principal loan, we have pointed out earlier in Chapter I, how KSFC cannot go on writing-off the interests of all defaulting units. However, KSFC officials agree that the deserving cases need to be looked

into and dealt with accordingly. KSFC has to operate within certain financial resources and norms for utilization of the same are governed by Reserve Bank of India, State Government and other financial bodies.

(iii) Personnel Limitations:

Some aspects of role failure are related to the personnel base of KSFC. Many entrepreneurs pointed out that once the KSFC sanctions the loan, it never bothers to follow up the progress of the assisted unit. KSFC swings into action only when the unit fails to pay its instalments in time. Close liaison with the assisted units is hence crucial. To correct this deficiency KSFC has now taken steps to strengthen its personnel base by inducting more management graduates in its staff to look after specialized and professional functions. This will enable KSFC to deal with the problems and needs of small scale units more effectively and efficiently. However, this measure has to be taken in phases and within certain limits as resource constraints are also involved here.

(iv) Other Constraints:

The regulations and restrictions imposed by the governing agencies like Reserve Bank of India, State Government and Industrial Finance Corporation etc. represent other important constraints on KSFC. Some of the problems of financial accommodation faced by the sick and defaulting units could

not be resolved by KSFC because of the constraints imposed on it by its governing organizations. Such constraints on KSFC should be modified through national level policy decisions so as to enable the lower echelon organizations such as KSFC to deal with the problem of sick and defaulting units with a certain degree of flexibility and in a timely manner.

6.2.2 Role Failure of Karnataka State Electronics Development Corporation Ltd. (KEONICS):

KEONICS was set up by the Government of Karnataka to promote a rapid growth of the electronics industry in the state. Today, Karnataka accounts for 35 percent of the country's production of electronics goods. The corporation is expected to meet the requirements of electronics units in Karnataka. The intended activities of the corporation include a wide range of services from preparation of project reports to marketing assistance.

The role performance of KEONICS has not been satisfactory from the entrepreneurs' point of view. The case of Surya Electronics Laboratory described in Chapters III and IV provides some evidence in this regard.

The entrepreneur of Surya Electronics Laboratory pointed out that the attitude of the Managing Director of KEONICS was not encouraging. The terms for extending marketing

(RBI) to suspend all the loan applications in the meanwhile. They wrote to entrepreneur on 3rd December 1977 about their inability to give him the working capital loan.

The whole matter was initiated on 26th August, 1976 by the unit requesting a loan from KICB and ended when KICB wrote a letter to the unit about its inability to sanction loan on 3rd December 1977. Such delays are crippling for the small unit's struggling for survival.

In the present context it was very necessary for the unit to get the working capital. The inordinate delay caused by flimsy technical problems created by KSFC and KICB not only worsened the situation of the unit but also demoralised the entrepreneur.

KICB officials threw the blame on KSFC for the delay in sanctioning the loan because KSFC delayed the issue of a no-objection certificate for want of which the loans sanctioning was held up. KSFC on the other hand accepted that there was delay in issuing the no-objection certificate. But it pointed out that the delay was caused by two factors: (1) the entrepreneur did not seek their prior permission as required and (2) that certain formalities had to be observed before issuing a no-objection certificate.

However, the lack of sensitivity and responsiveness on the parts of KICB <sup>and</sup> on KSFC aggravated the problem of sickness

in the case of Regal Engineering Industry unit. Its sickness could have been averted had it received the working capital loan for which it was eligible in time.

#### 6.2.4 Role Failure of the State Bank of India (SBI):

State Bank of India as a pioneer banking organization having wide expertise in financing small scale units is expected to play a major role in meeting the financial requirements of small scale units. The State Bank of India, Peenya industrial estate branch provided working capital to Surya Electronics Laboratory. The Bank failed to help the unit by not renewing its working capital loan. The reasons given by the managers were that as the unit was a defaulter, they demanded fresh surety. However despite these reasons, the manager was ready to consider the matter, but for the lack of initiative on the part of the entrepreneur to approach the bank for further consultation. The entrepreneur blamed the bank's insensitivity for not providing him with the needed working capital.

In the case of Techno Electronic Instruments, State Bank of India, Malleswaram branch also failed to accommodate the financial requirements of the unit. In both the cases, the units sought help from the bank when they were passing through a critical financial condition. The timely response of the two branches of State Bank of India, would have helped Surya Electronics Laboratory and Techno Electronic Instruments to improve their performance and then regain their health.

Table 6.1: Perceptual Disjunctions Between the Entrepreneurs and the Officials of the Service and Financial Organizations.

	Self	Others
Perception of the Entrepreneurs	<ul style="list-style-type: none"> <li>i) Hardworking</li> <li>ii) Working against heavy odds.</li> <li>iii) Have staked all their time, efforts and money to achieve success.</li> </ul>	<ul style="list-style-type: none"> <li>i) Unresponsive to their genuine difficulties.</li> <li>ii) Do not provide help regarding raw materials and marketing as they should.</li> <li>iii) Poor coordination amongst official agencies.</li> <li>iv) Inefficient and untrained in managerial orientation.</li> <li>v) Rigid bureaucratic attitudes</li> <li>vi) Open to bribery</li> </ul>
Perceptions of the Officials	<ul style="list-style-type: none"> <li>i) Conscientious in their duties.</li> <li>ii) Helpful to the entrepreneurs</li> <li>iii) Compliance with governing rules and restrictions.</li> <li>iv) Doing their best even in the face of various limitations.</li> <li>v) Vigilant.</li> </ul>	<ul style="list-style-type: none"> <li>i) Often insincere, exaggerate their difficulties in order to obtain undue benefits.</li> <li>ii) Do not comply with the official requirements.</li> <li>iii) Unrealistic in their expectations</li> <li>iv) Do not do all that they should to help themselves.</li> </ul>

### 6.3 Perceptual Disjunctions Between the Entrepreneurs and the Officials of Service and Financial Organizations:

The foregoing analysis of role failures of service and financial organizations and the role performance analysis of the industrial units in Chapters IV and V brought out the perceptual dissonance between them. The perceptual disjunctions between the entrepreneurs and the officials of service and financial organizations are the foremost indicators of the role failure of the industrial units and the service and financial organizations. The nature of these perceptual disjunctions as discussed in this and earlier chapters may be represented in the form of a Table as follows:

The above Table 6.1 brings out the nature of perceptual dissonance between the two sets of social actors involved in a pattern of role interactions at an observational level. They bring out clearly the situation of role failures of the industrial units and the service and financial organizations viewed as an interacting social system.

### 6.4 Causes and Consequences of Role Failures:

Role failures of the service and financial organizations are seen to involve a combination of subjective and objective aspects. The subjective aspect is predominant in that, the entrepreneurs of all the units both healthy and sick perceive the functioning of these organizations established for helping them

as ineffective and deficient. The officials of these organizations are seen by the entrepreneurs as insensitive, rigid and unresponsive to the genuine needs of the units needing help. Thus one side in the role relationship between the units and the environmental social collectivities views the relationship as violative of the norms of role expectations.

The objective aspects of the role failure refer to the overtly cognizable causal factors contributing to the non-effective performance of these organizations. They have been seen to be as follows:

- (i) Bureaucratic approach and out-look of the officials as distinct from a helpful attitude based on understanding and problem solving.
- (ii) Apparently excessive control of these organizations by their governing organs i.e., Reserve Bank of India, State Government etc. This aspect however could not be fully established by the writer.
- (iii) The limitations of finance, personnel and managerial skills faced by the helping organizations.
- (iv) Inefficient and archaic working procedures of these organizations contributing to the inordinate delays at various stages of their transactions with the assisted units and
- (v) A singular lack of coordination and orchestration amongst the activities of various service and financial



organizations leading to an all round decline in their role performance vis-a-vis the units meant to be assisted by them.

Comments regarding bribery and corruption on the part of the officials of these public organizations were also heard by the writer. The writer was however not in a position to ascertain their veracity.

The consequences of the role failures of these organizations have been serious. The number of defaulting units i.e., those unable to pay back their loan instalments in rising and the percentage of sick units in the state at present is more than 40 percent. Such a situation in turn has created serious financial problems for the public organizations themselves. A large volume of their financial resources is locked up in the sick units. The financial viability of the public organizations is now seriously threatened and they are themselves involved in the process of becoming sick. Their decreased financial viability has further constrained their ability to help the sick units. On the other hand, such a situation has also retarded the growth of the healthy units i.e., the latter do not receive the help they need toward their growth and expansion.

The foregoing state of affairs can be characterized as a situation of cascading role failures. The role failure of public organizations to help the sick units aggravates the role failures of the latter. The inability of the sick

units then to recover and repay the resources borrowed by them to the public bodies curtails the resource base of these organizations thereby further diminishing their capability to help the increasing number of needy and sick units. The coordinative weakness of these public organizations further contribute to their role failures jointly and severally. The existing situation represents a self-maintaining social trap from which these organizations and the industrial units can extricate themselves only through implementation of a series of relevant policy measures. The nature of such policy measures is identified in the next two chapters.

## CHAPTER VII

### POLICY ANALYSIS FOR THE PROBLEM OF SICKNESS IN SMALL SCALE INDUSTRY

In this chapter we attempt to develop the policy measures for dealing with the complex problem of industrial sickness in small scale industry. Our understanding of the problem for policy analysis is based on the deeper micro-level sociological investigation of the role failure of the small scale units and their environmental entities carried out in previous chapters. The sociological analysis of the problem in the foregoing chapters is sought to be utilized for the enunciation of the relevant policy measures in this context. The policy analysis is sought to extend in this chapter further by utilizing the theoretical constructs of the sociology of knowledge and social cybernetic analysis. We may thence be able to assess the convergence of the policy measures derived from three independent frame-works of analysis. What is a policy? A policy is a guiding premise for decision-making. It refers to a rule or set of rules for ensuring the consistency of decisions in the context of policy objectives. The policy makers in the present context are the Ministries of Industry of the Central and State Governments, Reserve

sick unit's prospects of recovery and thence distinguish between the deserving and the hopeless cases in order to optimize the use of the agencies' resources.

(4) Official agencies should also develop schemes and programmes of marketing assistance for helping the stagnating and sick units in their struggle for survival and growth. Such marketing assistance programmes may involve advice, information, contacts and marketing channels of which the needy units may take advantage.

(5) Financing agencies should assume themselves about the proposed marketing arrangements of the new units before extending them loans. A unit must have proper marketing outlets before commencing its full-scale production.

(6) Internal working methods and procedures of the agencies should be effectively improved to reduce the delays at every level. Correspondence from the entrepreneurs should be attended promptly and the necessary actions be taken in an appropriate and timely manner.

(7) After having sanctioned a project, the official agencies as a rule should help the unit in various possible ways. They should assist the entrepreneur to avoid delays rather than becoming causal factors.

(8) In a corresponding manner, the units should be enjoined to comply with the rules of the official agencies in their own interests.

(9) The units should be encouraged to approach the official agencies for help and advice concerning their problems and requirements.

(10) The entrepreneurs should be able to convince the official agencies of their need for financial and other help as to how they can improve their performance through such help. This measure is however contingent on the effectiveness of the policy measures (9) and (3). The sick state of the units may be averted by the help, professional advice and timely help of the official agencies as and when the entrepreneurs approach them.

These policy measures (1) to (10) are derived from the requirements of overcoming the sources of role performance failures. The implementation of these policy measures would undoubtedly require many microlevel component elements. We, however, cannot go into this question here.

The role failure based policy analysis of the problem is now supplemented by the analysis within the framework of the Sociology of Knowledge.

## 7.2 Policy Analysis Based on Sociology of Knowledge:

According to sociology of knowledge, the perspectives of social actors in society are based on their social positions and thence on their social interests (Mannheim, 1939).<sup>1</sup> The

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1. Karl, Mannheim, op.cit.

term 'perspective' according to Mannheim stands for the subjective perceptions, outlook and world-view of a social actor. The relativism of knowledge engendered by the segmental perspectives of social actors may be overcome by a perspectival synthesis i.e., perspectivism. Such a synthesis, according to Mannheim, can only be performed by an intellectual who is in principle free from the bias of the segmental social interests, of social actors occupying diverse types of positions in the social structure.

The application of the theoretical constructs of the sociology of knowledge helps to elucidate the nature of social problems.\* Social problems in terms of this framework may be viewed as the outcome of the conflicting perspectives of the social actors involved in the problem situations. These conflicting perspectives in turn are based on the conflicting interests of the social actors. Hence a solution of the problem would in principle be possible if the conflicting interests of the social actors may be reconciled in terms of a synthesis of their respective perspectives. A social actor in the present context is a collectivity of roles sharing a common set of interests. These collectivities of social actors in the context of the small scale industry problems are:

- (1) The entrepreneurs of the assisted units,
- (2) The financial and service organizations.

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\* For an interesting application, see, S.K. Agarwal's Ph.D. dissertation, Op.cit., where the conflict of interests against the social actors in sugar industry is explored.

Their subjective perspectives are based on their respective interests. The problem of sick units may be viewed in terms of their conflicting perspectives which in turn denote the non-fulfilment of their respective interests. The perspectives of the two social actors were outlined in terms of their subjective perceptions in the Table 6.1 of the VI Chapter. Briefly, the social interests of the entrepreneurs of the sick units shaping their perspective may be listed as follows:

- (i) Official agencies should help them financially so that they overcome their problems of working capital shortage.
- (ii) Official agencies should be sensitive to their problems and help them in a timely manner.
- (iii) Official agencies should improve their working to avoid inordinate delays in their transactions with the units. Projects' delays affect the units in a very serious manner.
- (iv) Personnel of the official agencies should be properly trained to assist and advise the units.
- (v) The work of the various official agencies should be properly coordinated with a view to help the units efficiently.

Similarly, the perspective of the official agencies as a social actor is based on their following situational interest i.e., their defence and justification of their performance:

- (1) The official agencies suffer from the limitations of resources and personnel.

(2) They are bound by the directives of the ministries and Reserve Bank of India.

(3) The entrepreneurs do not comply with the rules and blame the agencies for delays.

(4) The entrepreneurs are often sincere. They want to take advantages of the provision of financial help to which they may not be genuinely entitled.

(5) The entrepreneurs of the units are themselves to be blamed for their difficulties. They do not seek the agencies' help and advice in time.

As a matter of fact these conflicting perspectives and interests are more in the nature of symptoms of the problem rather than a reflection of a basic conflict of interests. The basic interests of both the social actors are mutually supportive in the context of the promotion and growth of small scale industry. Hence the indicated policy measures may be derived from the requirements of reconciling the perceptual disjunctions of the two actors. The indicated policy measures would thence be those that reconcile i.e., meet the interests of both the actors as perceived by them respectively.

The policy measures derived earlier from the role failure point of view may be **seen** to do so in a logically correlated manner. This may be demonstrated as follows:



Policy MeasuresInterests of the social actors

Measure (1)	Interests (i) and (ii) of the official agencies
Measure (2)	Interest (v) of the entrepreneurs
Measure (3)	Interest (iv) of the entrepreneurs and interest (I) of the agencies and (IV)
Measure (4)	Interest (ii) of the entrepreneurs
Measure (5)	Interest (iii) and (v) of the agencies.
Measure (6)	Interest (iii) of the entrepreneurs
Measure (7)	Interests (ii) and (iii) of the entrepreneurs.
Measure (8)	Interest (iii) of the agencies.
Measure (9)	Interest (v) of the agencies and (II) of the entrepreneurs.
Measure (10)	Interests (iv) and (v) of the agencies.

Hence the nature of indicated policy measures based on the reconciliation of interests or synthesis of perspectives of the social actors in terms of the sociology of knowledge is seen to be broadly convergent with the policy measures (1) to (10) derived earlier.

### 7.3 Cybernetic Approach to Policy Analysis:<sup>1</sup>

We now use the methodology of social cybernetic analysis for a holistic study of the problems of small scale units in order to derive relevant policy measures. This complex problem situation is here dynamically analyzed as a multi-loop structure of interacting feedback cycles. Malfunctioning of the feedback loops in relation to their intended control functions, provides the basis for understanding, the nature and malaise of this complex problem situation. Measures for correcting the malfunctioning loops then logically provide the basis for the identification of the policy measures for a logical solution of the problem. In what follows, we first briefly discuss the nature of feedback cycles and then develop a multi-loops representation of the problem situation under review.<sup>2</sup>

### 7.4 The Nature of Feedback Cycles:

Control process is goal oriented. It operates through circulative reactive structures. A circulative reactive structure consists of a chain of activity cycling upon itself recurrently. Starting from any point in the chain reaction, the sequence leads back to it and another cycle commences. The reactive cycles fall into two categories according to their

1. For a discussion of the cybernetic approach to problem solving, see, Rastogi (1978), Op.cit.
2. The term 'loop' and 'cycle' are used interchangeably in the discussion. Both of them refer to circular reactive structures of variables.

intended control functions. When the control objective is to maintain stability and balance within given limits, the reactive structure constitutes a negative feedback cycle. When the objective is to obtain cumulative change i.e., continuous growth or decline, the structure constitutes a positive feedback cycle. Together they serve to realize the goals of regulation in dynamic systems. It is when they malfunction, that the problems are seen to arise in a dynamic system.

#### 7.5 Analysis of the Problems of Small Scale Units Through Multiloop Structure:

Cybernetic representation of the problem situation of small scale units is given in the form of two figures. Fig. 7.1 represents the dynamics of healthy small scale units whereas Fig. 7.2 represents the dynamics of sickness in small scale units. The variables are highly aggregated in the interest of keeping the analysis of the problem at a manageable level. The variables correspond to the lumped parameters of control system theory. The basis of their inclusion in the system model here is their recurrence in the various accounts of the problem situations of the small scale units studied by us. The meanings of the variables are contextual and self-explanatory. A listing of the variables along with their meanings in brief is outlined. The variables in Fig. 7.2 may be discussed as follows:

1) Weakening of the Resource Base:

Delay in project start-up caused by external factors produces financial strain and weakens the resource base of a unit i.e., it begins to lose money. High overhead and fixed costs of production and poor sales aggravate a firm's losses.

2) Inadequacy of Working Capital:

Financial strain caused by delayed project startup and low sales reduces a firm's working capital. The reduction of working capital is further compounded by the delayed payments of bills from customers. It is also later affected by the lack of financial accommodation from the financial institutions.

3) The Capability to Secure Production Inputs:

The sick units' capability to secure production inputs is affected by the inadequacy of working capital available to them. This is further affected by lack of assistance from official agencies regarding the supply of raw materials at regulated prices. The shortage of money resources also creates the problem of hiring and retaining skilled labour.

4) Loss of Competitive Ability:

Due to the firms' inability to secure production inputs economically and adequately, the competitive ability of the unit to produce and market its products is affected adversely.

5) Loss of Market Share:

The unit's sales volume and revenue decline due to its loss of competitive ability. This is further affected by stiff competition from other firms and a limit on the market demand for the firms' product(s).

6) Low Production Capacity Utilizations:

Due to loss of market share, a firms' capacity utilization is affected and leads to low production activity and increased costs.

7) Increasing Overhead and Production Costs:

Low production capacity utilization brings about increasing overhead costs and production costs thereby further decreasing the competitive ability of the unit.

8) Low Sales Revenue and Declining Profits:

Loss of market share leads to loss of orders which contributes to low sales and declining profits. This state of affairs leads to a shrinking of a firms resource base.

The variables in Fig. 7.1 are identical to those in the Fig. 7.2 with their signs reversed, i.e., in this figure they represent a polar opposite situation.

These variables are seen to be organized in the form of positive feedback cycles in the figures 7.1 and 7.2. The

intended regulating role of the positive feedback cycles is to promote growth over time. Fig. 7.1 depicts the nature of interaction amongst the variables that has engendered growth in the healthy units and enabled them to acquire financial viability and increasing production, sales, revenue and profit. The dynamics of their situation discussed next.

#### 7.6 Dynamics of Healthy Small Scale Units:

The representation of system dynamics here consists of three interacting positive feedback cycles as depicted in Fig. 7.1. These three cycles may be discussed one by one as follows:

(1) Cycle I connects together the variables-Sound resource base, Adequate working capital, The units' capability to secure production inputs, Increased competitive ability, Growth of market share, and Higher revenue and profit. The Sound resource base of the healthy units enables them to maintain Adequate working capital which in turn promotes the Units' capability to secure production inputs adequately and economically. The units' capability to secure its production inputs leads to its increased competitive ability. This ability is further strengthened by the units', sound organizational and marketing base and enables them to achieve growth of market share. The latter leads to higher sales revenue and profit which further strengthens the sound resource base of the unit. The cycle I is complete at this point.

The intended regulatory function of this cycle is to improve the financial position, sales, revenue and profit of the unit. In the case of the healthy units the loop is largely functioning according to its intended regulatory function. However, if additional assistance were available to these units in the form of inputs from the governmental bodies, these healthy units would have achieved further financial success.

Cycle II connects together the variables, Higher revenue and profit, Sound organizational and marketing base, The unit's capacity to secure production inputs, Increased competitive ability and Growth of market share. Higher sales revenue and profit strengthen the unit's sound organizational and marketing base by enabling them to allocate more resources toward personnel and sales effort. The latter help create increased competitive ability of the firms. The latter in turn leads the unit to achieve growth of market share and thence higher sales revenue and profit. The cycle II is complete at this point.

The intended regulatory function of this loop is to increase the firm's sales revenue and profit through increased competitive ability and market share. In the case of healthy units, this cycle is functioning according to its intended regulatory role.

Cycle III connects together the variables - High capacity utilization, low overhead and production costs, Increased competitive ability and Growth of market-share. High capacity utilization leads to low overhead and production costs which enables the units to acquire Increased competitive ability. This further brings the firms' Growth of market share. Expanded market share in turn increases the firms' capacity utilization. The Cycle III is complete at this point.

This cycle in the case of healthy units is functioning according to its intended regulatory role of increasing high production and sales through lower costs of production and increased competitive ability of the firms.

To sum-up the functioning of these three positive feedback cycles in the dynamic structure of the healthy small scale units is according to their intended regulatory functions. They account for the healthy status of the firm. However, if appropriate policy measures are introduced to enhance the impact of government policies so as to make available the various inputs and assistance by official financial institutions, they would bring about a further growth of healthy units.

Although all the feedback cycles of the system dynamics are here positive i.e., growth-oriented, they do not imply unlimited growth. First of all, the system depicted here is not an isolated system. It is subject to various environmental



disturbances that serve as external braking factors on the internal growth processes. Two such factors are shown in Fig. 7.1 in the form of two exogenous variables i.e., competition from other firms and demand for firms' products. Growth of the firms in respect of the growth of market share is thence limited by their adverse impact. They in essence imply that a firm has to compete with other firms who are also producing the same type of product and that the market demand for the products concerned itself is finite. Hence the dynamics of growth processes are kept in check by these two powerful external environmental factors and impose limits on the levels of growth achievable by the firms.

Dynamics of sickness in the small scale units are represented in Fig. 7.2. This situation represents a polar opposite of the one depicted in Fig. 7.1. All the variables here represent the anti-growth state of affairs. The positive cycles are here reinforcing the interaction of the variables to lead the system toward a spiral of deteriorating performance. The exogenous variables are here shown to be further affecting the situation adversely. The cycle-wise discussion here is as follows:

Cycle I connects the variables weakening of the resource base, Inadequacy of working capital, the Unit's incapability to secure production inputs, Loss of competitive ability, Loss of

market share, Low sales revenue and declining profit. All these variables are sequentially reinforcing one another and thereby creating a situation of low sales, losses and financial crisis.

Cycle II relates together the variables - Weak resource base, Weak organizational and market base, Loss of competitive ability, Loss of market share and Low sales revenue and declining profits. All the variables are here also sequentially reinforcing one another to engender a situation of increasing weaknesses of the organization, declining sales and profitability and the erosion of the firms' resource base.

Cycle III similarly relates together the variables Low production capacity utilization, Increasing overhead and production costs, Loss of competitive ability and Loss of market share. These variables are here together engendering a situation of low production and sales alongwith a loss of firms' market standing.

The exogenous variable, Delayed payments by the customers, compounds the problems of firms' Inadequacy of working capital. The exogenous variable, Financial accommodation not available refers to the failure of official agencies to meet the sick units' requirements of working capital shortage. The variable Project delays also refers to the past failure of official agencies to help the units' commission their project

according to schedule. Such delays in the beginning adversely affected the firms' resource base as the units had to remain idle for varying periods of time. The exogenous variable, Inadequate supply of raw materials at high cost refers on the one hand to the agencies' failure to extend help regarding the availability of raw materials at controlled rates and on the other hand it also reflects the sick units' inability to buy their requirements from the open market on the basis of stable contracts. These units cannot engage into long term arrangements to secure the raw materials economically because of their lack of cash resources. The exogenous variable Lack of marketing assistance, similarly, refers to the failure of the official agencies to help the sick units toward the marketing of their products. The remaining two variables, Demand for products and competition from other firms have the same meaning as in Fig. 7.1.

#### 7.7 Derivation of Policy Measures for Problem Solution:

Cybernetic approach to problem solving is based on the requirements of rectifying the malfunctioning feedback cycles. In the present context, the approach implies a set of measures that would convert the malfunctioning positive cycles of this situation into the development oriented positive cycles of the previous situation, (Fig. 7.1). These measures would thence relate to the changing of the role of

The implementations of all these policy measures are perhaps of equal importance, if not more, important issues. It would call for an extensive organizational analysis of the official agencies involved in the promotion of small scale industry in the country. The problems of their mutual linkages and coordinations are to be investigated and resolved before the proposed policy measures may be properly implemented. The present study however cannot undertake this challenging task due to limitations of time and resources.

## CHAPTER VIII

### CONCLUSIONS

The present study of the problem of sickness in small industry, a comparative sociological study of eight small industrial units in Bangalore, set out with the following objectives:

Firstly, to find out the underlying factors differentiating the 'sick' and 'healthy' status of the units investigated in the study.

Secondly, to understand the problem of sickness by analysing the actual and normative role performance of the various social entities in the units' social environment.

Thirdly, to bring out the salient issues underlying the role failure of the various social entities involved in the problem situations including the units concerned.

Fourthly, to assess the findings of various studies on industrial sickness in small scale industry in relation to the findings of the present work.

Finally, to derive a set of policy measures for dealing with the problems of sickness in small scale industry on the basis of the present study.

The research design of this study was organized around a systematic comparison of a matched set of eight small scale units equally divided into healthy and sick categories. We have selected such units for our study which are characterized by a set of common control characteristics. This purposive selection of the units has been done in order to identify the differentiating factors underlying sickness or its absence in the investigated units.

The common control characteristics of the units were further reinforced by a set of shared entrepreneurial attributes of the units entrepreneurs. All the entrepreneurs are educated, ambitious, motivated, technically trained, aware of governmental provisions and possess work-experience and investible capital.

The logical structure of the investigation was organized around the four themes of inferences:

- (i) the comparison of 'sick' units among themselves,
- (ii) the comparison of 'healthy' units among themselves,
- (iii) the comparisons of 'healthy' and 'sick' units, and
- (iv) the organization-environment relationships of the units concerned.

The main thrust of the analysis was around the role performance comparison of the 'healthy' and 'sick' units in respect of their functional subsystems.

The comparison revealed that the healthy and the sick units performance in their respective functional sub-systems differed markedly. In the case of most of the sick units, problems developed due to the delays caused by external factors. These external causal factors, produced adverse effect on the internal functioning of the units and amplified some of their weaknesses. They were primarily responsible for the consequential failures of the internal functioning of the units. In one case, the unit's progression toward a 'sick' status was triggered by the internal dissensions amongst the partners at a time when the unit was poised for further growth.

Though all the eight industrial units shared similar organizational characteristics and their respective entrepreneurs also shared certain basic entrepreneurial attributes, the role performance of the units has diverged widely. Thus, divergence has been due to a number of internal and external factors specific to each unit. These factors have been documented in the study. During the course of adjustment to the respective adverse conditions, the sick units suffered from lack of sufficient working capital, and weak marketing position. These weaknesses amplified their poor performance in the functional areas of their business. The resource base of some units was seriously eroded. The requisite financial and marketing assistance from the official organizations which could have

helped them to overcome their weaknesses was not forthcoming. The units thence turned sick. Unless the external assistance like provision of additional funds, writing off the accumulated penal interests, and marketing assistance are made available to these units, they would continue to be sick and may end up as closed ones shortly.

In contrast to the sick units, the healthy units were not adversely affected by external factors. Their projects' commissioning was according to schedule. Though in the initial years they incurred small financial losses, their production never decreased. It continued to show an increasing trend because of the sound marketing arrangements which had been established before commissioning their projects. The sick units, on the other hand, were affected due to the uncertainties of their market position. The management of the healthy units was comparatively effective and efficient than those of the sick units. However, the entrepreneurs of both the sick and the healthy units experienced similar kinds of official attitudes and treatment, and all of them opined that the governmental officials and agencies did not perform their duties in accordance with their role-performance as were expected to, prompted by the norms of reciprocity of role expectations.

The sociological nature of the problem of sickness hence emerges as one of the interactions between external and internal factors in the affected enterprises. These external



and internal factors are seen to be the concomitant aspects of the role failures of the environmental social entities and the sick units. The role failures of the social actors involved in the problem have been aggravated instead of being diminished by their patternal role interaction.

The role failures of the sick units could have been mitigated and prevented if the environmental social actors had not created the conditions of inordinate delays in the beginning or helped them later when these units needed their help in the struggle to overcome their sickness. One of the important points that emerged from the present study is that mere possession of the requisite entrepreneurial characteristics by the entrepreneurs may not yield success to their firms. The supportive role from the environmental entities is a vital requirement in this context. Many of the findings of the present study do confirm the findings brought out by studies mentioned and discussed in Chapter I. But the way differs, in which they are arrived at. Many studies have listed different internal and external factors as causal factors for the sickness in small scale units. But how these internal and external factors emerged and brought about the success or failure of a unit was lacking in these studies. In the present study, we have shown how the emergence and interactions of the internal and external factors has engendered the success or failure of the industrial units. The finding

of Vidarbha<sup>1</sup> study presents us in a vivid manner many of the difficulties faced by small scale units which arise from financial and administrative rigmarole were very much confirmed by our study. We have shown as to how the role failures of service and financial organizations as important source of external causal factors which led the small scale units to sickness. Some of the internal factors are found as causal factors of sickness in small scale units like lack of proper organizational base, under-utilization of capacity, poor marketing function, lack of working capital, lack of managerial experience (as identified by various studies<sup>+</sup>). However, we have shown, as to how these internal factors are the result of a chain-reacting started off by certain major causal factors. The role of labour relations as an important internal factor in the small scale units also emerges from our study. This aspect has remained almost untouched in most of the studies on sickness in small scale units. The present study throws light on the importance of understanding the crucial transactions between the small scale units and their environmental entities in properly understanding the problems of small scale units. This aspect has not been attempted in many of the studies that we have discussed.

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1. Survey Report - sick units in Vidarbha in small scale, Op.Cit.

+ Various studies, op.cit, Chapter I.

The concluding part of the study, is devoted towards an identification of the policy measures for dealing with the problem of industrial sickness in small scale units. In order to improve the functioning of the small industries and to bring about their growth and development, various policy measures are outlined. They are arrived at logically on the basis of problem analysis. These conclusions may perhaps also be intuitively arrived. But we have followed a systematic procedure of theory and methodology in order to identify and justify them.

Being fully aware of the limitations of a micro-level empirical study it would suffice simply to say that the findings of this study will have to be further validated by a series of similar studies in different industrial areas. It is only such further comprehensive empirical research that would enable the national policy makers to control and avert the rising incidence of sickness in the small (and large) industrial units. +

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+ Industrial sickness has assumed alarming dimensions during the last two years and at present, over Rs. 2,000 crores of public funds are locked up in these sick units, according to the general manager of the Industrial Finance Corporation of India, Mr. D.N. Davar, (Times of India, dated 30.8.1981).

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However, the performance of the healthy units would have been much more satisfactory had the social entities in their environment played a much more positive role. The healthy units from the machine tools and electronics industries in contrast to the sick units, were well planned and their performance towards project management was effective. The healthy units were operated with effective management policies from the beginning.

(i) The Start up of the Project as per Schedule:

All the healthy units commissioned their projects as per schedule. This avoided project start up delays and placed the units in a favourable position. Before the commissioning of the projects, the entrepreneurs secured the needed licence, for importing raw materials and made the necessary marketing arrangements. Because of their adequate ground\_work and proper planning the healthy units did not face problems in this regard.

(ii) Cohesion of Ownership Structure:

Out of the four healthy units, three units viz., Sai Electronics, Electronic Equipments, Sabeer Machine Tools, are private limited companies. The fourth one, M/S Precision Tools, is a sole ownership firm. All the healthy units exhibited a cohesive, harmonious, and effective, ownership structure. In the case of private limited companies, the functions

In the preceding part of this chapter we have brought out certain major causal factors associated with the success and failure of the small units. These major causal factors underlying the differential role performance of the sick and healthy units may be summarized as in the Table 5.5. The sick units (except one) were initially affected by the external delays namely the delays in receiving the supply of lathes and machineries. Inordinate delays in the issue of an import licence to Surya Electronics Laboratory almost destroyed the unit. These external factors seriously affected the project's start-up period. The time delays in the project's commissioning placed the units under serious financial strain. The entrepreneurs were poorly equipped to deal such adverse situations and during the initial stages, their morale and confidence were undermined. During the course of adjustment to these adverse conditions, the entrepreneurs also suffered from a lack of sufficient working capital. Their weak marketing position compounded in their poor performance in the different functional areas of their businesses. As a result of these, external and internal factors the resource base of the units was seriously eroded. The requisite financial and marketing assistance from the official organizations which could have helped them overcome their weaknesses was not forth-coming. The units thence turned sick.



tions of the entrepreneurs with whom this organization is expected to interact in terms of its intended norms of role performance i.e., helping the entrepreneurs.

### 6.2.3 Role Failure of Karnataka Industrial Cooperative Bank Ltd. (KICB):

KICB is sponsored by Karnataka Govt. to meet the working capital requirements of small scale industries.

Regal Engineering Industry approached KICB with a request for a working capital loan of Rs. 40,000/-. KICB agreed to sanction the loan if the unit was ready to pledge two of its lathes as security for the loan. However, the lathes were already pledged to KSFC. When the entrepreneur approached KSFC to issue a no-objection certificate to KICB regarding the pledging of the lathes, KSFC instead of considering the request sympathetically wrote to KICB about some technicalities involved in the matter of pledging.

When the entrepreneur made another request to KSFC pointing out its difficulties in getting the working capital loan, KSFC finally sent a no-objection letter to KICB on 21st July 1977. The entrepreneur who had been running from KICB to KSFC all along finally got a new blow. The unit was informed by KICB about its inability to sanction the loan as they had received an instruction from Reserve Bank of India

- (1) Highest level policy makers like central and state ministries of industry, and Reserve Bank of India should permit greater flexibility of operations to the official organs like KSFC and banks. The latter should have the ability to help the deserving cases among the sick units in a timely and adequate manner. When in their considered judgement, such help would enable the units concerned to overcome their difficulties and restore the financial viability. Additional funds should be made available to the agencies for this purpose.
- (2) Highest level policy makers should also make it mandatory for the various official agencies to coordinate their work and activities for assisting the new and healthy industrial units in a timely and adequate manner and helping effectively the deserving sick units in their speedy recovery. At present the coordination amongst the various agencies is highly erratic, ineffective and tardy.
- (3) Consistent with the policy measure (1), the agencies like KSFC and banks should professionalize their staff cadres through training programmes and/or recruitment. The staff of these official agencies should be properly trained in the techniques of managerial analysis. Such persons through their actual visits to the sick units can assess latter's requirements of the financial and technical assistance. They may also on the basis of their professional expertise be able to evaluate a

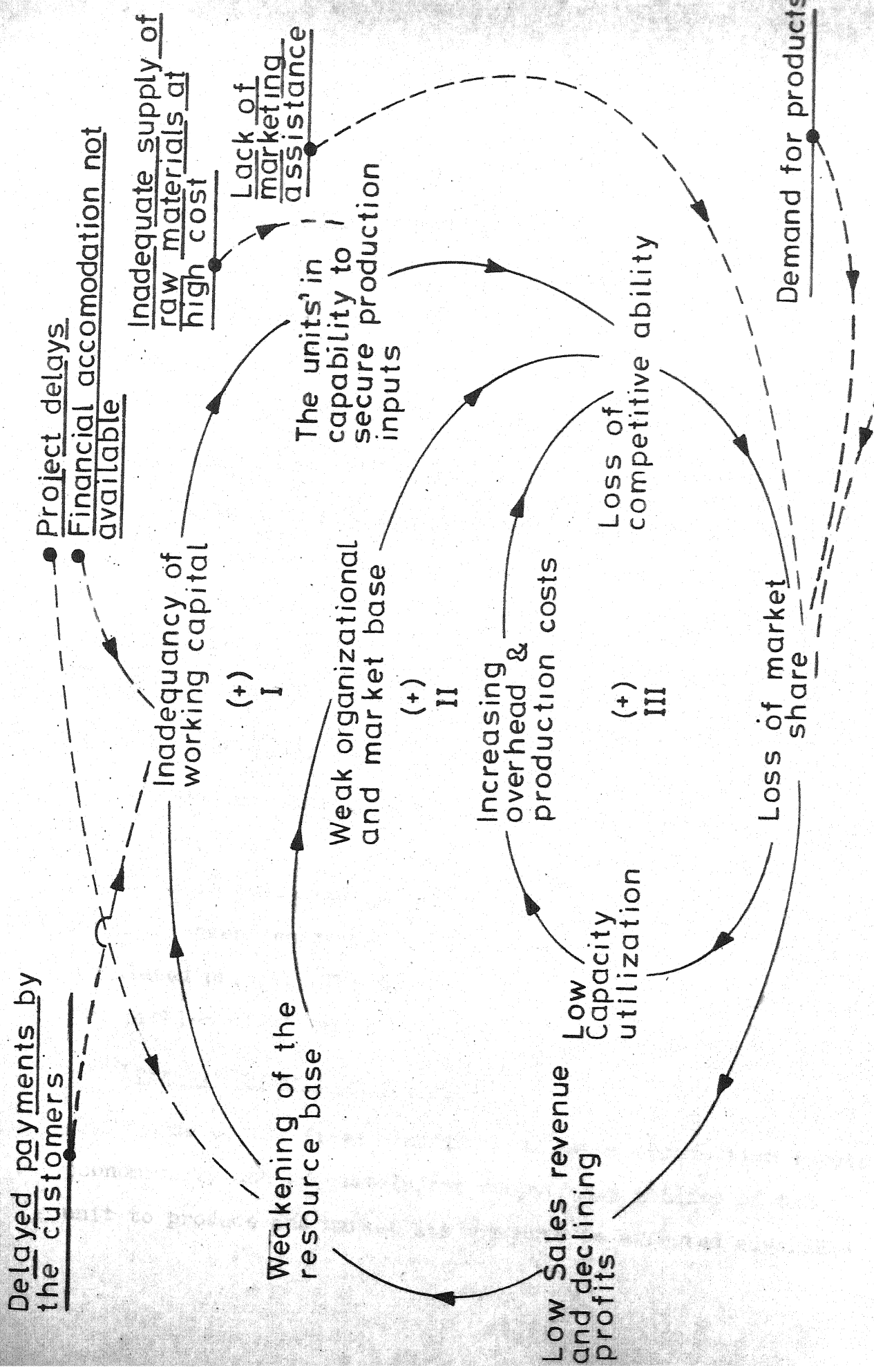


Fig. 7.2 Dynamics of Sickness in Small Scale Units

(vii) Correlatively, the sick units should also approach the official agencies for help as soon as they encounter problems which they cannot overcome by themselves.

(viii) All the foregoing measures also imply that the official agencies should regularly monitor the performance of the assisted units.

(ix) The assisted units should in turn comply with the rules, instructions and advice given by the official agencies for their own benefit.

(x) In so far marketing is the most important aspect of the unit's health and sickness, the official agencies as a rule should assure themselves of the soundness of the marketing base of a firm before financing its project and/or providing it with financial accommodation toward working capital requirements.

The measures (I) to (X) listed here may be seen to be convergent or even identical with those derived earlier on the basis of role failure and sociology of knowledge analyses. In so far as the sets of policy measures emerging from the three independent theoretical frameworks are seen to be the same, they may be assessed as valid. The policy measures for problem solution outlined here are the outcome of logico-rational analyses. They are not based on the arbitrariness of subjective evaluation and ad hoc considerations.